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# THE CO-OPERATIVE MARKETING OF LIVESTOCK

*by*

EDWIN G. NOURSE

*and*

JOSEPH G. KNAPP



WASHINGTON, D. C.
THE BROOKINGS INSTITUTION
1931

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Set up and printed.
Published May, 1931.





*Printed in the United States of America by*
The Printing Corporation of America
Washington, D. C.

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> The present volume has attempted nothing beyond showing the evolving nature of co-operation as a modern economic institution. How this institution is actually being applied in particular branches of our agricultural industry—cotton, grain, tobacco, livestock, milk, or other—constitutes another, a larger, and an indefinitely continuing field of study.

*The Co-operative Marketing of Livestock* is the first contribution of the Institute in this latter field.

The origins of the book run back more than a decade to the time when the senior author was intimately engaged in co-operative marketing activities in various land grant colleges in the Middle West. The actual preparation of the manuscript has been going on for more than three years. Its publication was delayed awaiting developments under the Agricultural Marketing Act of 1929.

It is, of course, difficult to select any particular time for going to press with the discussion of a movement so dynamic as is co-operative marketing today. However, the broad outlines of Farm Board influence have now been revealed, the actual structure of a national system has been set up, and the issues which will confront the movement in the future are fairly well defined. The present moment therefore seems an opportune time for presenting the results of our study.

It is our hope that this volume not only will be found to have real educational value in the field of livestock

marketing but also will possess fundamental significance for all students of the co-operative form of economic organization.

The members of the staff who co-operated with the authors in the preparation of this volume were Leverett S. Lyon and Lynn R. Edminster.

EDWIN G. NOURSE
*Director*

Institute of Economics
April, 1931

## AUTHORS' ACKNOWLEDGMENTS

The authors are indebted to a large number of persons officially connected with co-operative livestock marketing organizations or with government agencies and educational institutions for supplying the data upon which this book is based. Besides the credit given in numerous footnote references, we wish here to express our gratitude for their generous assistance.

During the progress of the work we have derived great benefit from having the manuscript read by persons actively participating in or intimately informed concerning co-operative livestock marketing agencies in various sections of the country. Criticisms and suggestions covering all or part of the manuscript have been received from the following: C. G. Randell, chief, Livestock and Wool Section, Division of Co-operative Marketing, Federal Farm Board; C. L. Harlan, principal statistician, Division of Crop and Livestock Estimates, Bureau of Agricultural Economics, United States Department of Agriculture; Charles A. Ewing, president, National Livestock Marketing Association; H. H. Parke, treasurer, National Livestock Marketing Association; P. O. Wilson, secretary and general manager, National Livestock Marketing Association; Charles A. Stewart, manager, Feeder and Finance Corporation, National Livestock Marketing Association; J. S. Montgomery, general manager, Farmers' Livestock Marketing Association; D. B. Rumble, counsel, Farmers' Livestock Marketing Association; D. L. Swanson, manager, Chicago Producers Commission Association; Earl Elijah, president, Iowa Livestock Marketing Corporation; Knute Espe, secretary, Iowa Co-operative Livestock Shippers; Ray E. Miller,

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director, Livestock Marketing Department, Illinois Agricultural Association; J. R. Allgyer, secretary, Ohio Livestock Co-operative Association; F. G. Ketner, general manager, National Order Buying Company; Chris L. Christensen, dean, College of Agriculture, University of Wisconsin, and formerly secretary of the Federal Farm Board; Paul L. Miller, professor of marketing, Iowa State College; Frank Robotka, marketing economist, Iowa Agricultural Experiment Station; S. H. Thompson, extension specialist, Iowa State College; George F. Henning, professor of marketing, Ohio State University; C. W. Hammans, extension specialist, Ohio State University.

The sound counsel and broad experience of these men have strengthened the book in innumerable ways. Although they were not in a position to correct all its shortcomings, they have saved the authors from many misstatements of fact or errors of interpretation into which they otherwise would have fallen. None of them, however, is to be held accountable in any way for the views expressed or the conclusions stated in the final draft of the volume.

EDWIN G. NOURSE
JOSEPH G. KNAPP

## CONTENTS

# THE CO-OPERATIVE MARKETING OF LIVESTOCK

## INTRODUCTION

The co-operative livestock marketing movement of the United States is a thoroughly indigenous growth. Particularly in the North Central region, but also in several other sections, it has sprung up spontaneously in response to the needs of the livestock producers and has been conditioned by the peculiar features of the trade organization existing in our livestock markets. It has done a minimum of borrowing from patterns of co-operative organization elsewhere or in the previously organized fields of co-operative endeavor. It has within a relatively short time developed a large amount of practical and effective thought concerning its own problems and a variety of experimental procedures in dealing with them. The evolution of the movement has now proceeded far enough so that materials are available for a reasonably adequate analysis of major trends and distinctive issues.

The present volume therefore attempts to sketch in clear outline (1) the circumstances which have led co-operative livestock groups to organize their several types of marketing enterprise, (2) the objectives which these groups appear to have in mind, whether or not they are reduced to definitely formulated theories, (3) the practical problems and current issues which have arisen with the development of co-operative effort in the face of various evolutionary forces which have been operating in livestock production and marketing, (4) the economic implications of certain forms of organization or procedure now to be found in the movement, and (5) past achievements and the direction of effort and the relative emphasis which seem to promise most for future progress.

To the writers it appears that a certain amount of confusion has been introduced into the thinking of many people actively identified with the livestock co-operatives. The confusion has resulted from a failure to distinguish clearly between the nature of the shipping function and that of the selling function in co-operative marketing. While the two activities are to a large extent intermingled in the actual process of commercial distribution, they do present different functional approaches to the problem of co-operative livestock marketing. Both in our historical treatment and in our economic analysis, therefore, we have sought to set out clearly these separate though closely interrelated functions, and to show the organizational and operative issues to which this dual character of the movement has given rise.

Part I is limited to an examination of shipping activities. It traces the first epoch of the movement by which livestock producers were brought together in co-operative groups for the disposal of the product of their industry. At the close of these six chapters we see shipping associations reaching forward toward the organization of the whole industry on the basis of state and national federations. We observe also that these producer groups had begun the establishment of selling agencies of their own in both local and terminal markets.

Part II proceeds with a discussion of selling agencies on the terminal markets and also of the development of direct marketing activities in several areas. While these movements were in some instances closely integrated with the shipping activities of co-operatively organized producers, they were in other cases promoted on rather ambitious lines by persons who did not conceive of co-operative selling as a merely ancillary activity of a co-operatively organized industry but

rather as the dominant factor of co-operative endeavor in this field.

Both these movements, therefore, represent imperfect or incomplete expressions of the co-operative idea. The co-operative shipping attack never carried itself through consistently and comprehensively to the perfection of a selling organization. Mutualized selling enterprises, on the other hand, never struck their roots deeply enough into the soil of co-operative support; there was a failure to make the selling function a strictly service activity of a co-operatively integrated industry.

Part III addresses itself first to an appraisal of the results accomplished by co-operative livestock marketing efforts of all kinds up to the time when the Federal Farm Board entered the field. This is followed by an historical and descriptive account of the Farm Board's proposals for a national livestock marketing organization and of the actual developments which have taken place under this impetus. Finally, we venture some analytical comment on the economic issues and problems of co-operative principle which now confront the movement.

The decision to include so much and such detailed historical matter has not been made without a definite and constructive purpose. It is our belief that both the present and the future have continuity with a living past, and that the present set-up of a comprehensive livestock marketing organization under the Federal Farm Board or any other agency can be adequately appraised or even fully understood only as seen in the perspective of past events which have led up to and conditioned current developments. While we believe that one of the most important considerations for the success of co-operative livestock marketing is a fine loyalty on the part of individuals identified with

the industry, we feel that such loyalty cannot be demanded merely on the ground that certain organizations are now here and claim our support. We do not believe that such loyalty can be solidly founded on prestige—that of a "national" organization or even of the Federal Farm Board. To be permanent, it must rest on reasoned belief as to the soundness and value of the measures which have been taken and the fullest possible understanding on the part of members as to the functions which they must perform if the organization is to have the distinctive character and merits of co-operation rather than the ancient weaknesses of competitive commercialism.

The natural scientist has found that he must examine the lower forms of life as a preliminary to the study of the more complex. It is equally necessary that any really adequate study of the complicated economic institutions of today be grounded thoroughly in the evolutionary process of which they are merely the latest stage. Co-operation is much too complex an economic and social institution to flourish on mere enthusiasm. It must be grounded on patient and fearless study of its past as well as its present manifestations and disinterested discussion of the issues on their merits.

# PART I

# CO-OPERATIVE SHIPPING

# CHAPTER I

## THE PIONEER PERIOD

The livestock shipping association is one of the simplest forms of co-operative organization and one which has sprung spontaneously from the lives of American farmers. It represents one of the oldest types of co-operative effort; it is hardly possible to go back in the history of our livestock industry to any point so remote that we do not find distinct traces of joint action in the marketing of the product. This is partly due to the fact that, in the history of American agriculture, livestock raising has developed as a pioneer and frontier industry. The producer found frequently that his remoteness from markets and the necessity of handling his product in large units necessitated an appeal to the joint action of neighbors.

Dependence upon group marketing has been characteristic of the small man in the industry. Whereas the "cattle king" had a great establishment and trailed his herds across country with a sufficient convoy of cowboys and "chuck wagons," the man with a small bunch of cattle commonly found that he either must sell on the range at the buyer's price or else must join with other small men in the industry to make up a drove large enough to be put directly in the primary or the terminal market. As cattle raising gave way in the North Central states to general farming, and as swine raising and dairying assumed more importance, this problem of the small man with less than the economical shipping unit became still more prominent. The large grower or feeder who could make up straight carloads went direct to the terminal market; but the man with

a few hogs, a small flock of sheep, an occasional dry cow, or a few dairy calves had no such opportunity. He was constrained to deal with the local livestock buyer, and often was very much dissatisfied with the result. Frequently it happened, therefore, that several neighbors would go together to make up a full carload by joining small shipments. Such form of associated shipping without any formal organization probably always existed in the livestock districts.[1]

## I. PROMOTIONAL WORK OF THE GRANGE, EQUITY, AND FARMERS' UNION

The process of shaping up the spontaneous practice of joint shipping into the present organized co-operative livestock movement has derived considerable stimulus from the marketing activities of various farmers' organizations which have appeared from time to time during the last fifty years. The co-operative shipping of livestock was undertaken by the Grange during its active period in the seventies. The Grange did little, to be sure, to perfect the form of organization, but it did show the advantage of having

[1] An interesting note is included in W. A. Lloyd's *Bulletin* No. 326 of the Ohio Agricultural Experiment Station (pp. 83-84): "More nearly co-operative was the Licking Exporting Company, organized by the Welsh settlement at Granville in 1820. It was composed of farmers who associated together for the purpose of sending their produce to market. The first attempt was the marketing of hogs. These were put into the custody of representatives of the company and driven to Sandusky, where they were slaughtered, the pork being packed and shipped by boat to Montreal. An agent of the company went with the shipment to Canada to make the sales, where he realized $1.25 per hundredweight for the pork. Needless to say, the venture was not a profitable one, and it was not repeated. This attempt at business co-operation is the earliest in the state of which we have any account, and possessed most of the elements of ideal modern co-operation: (1) the product was brought together at the point of production; (2) it was transported economically; (3) it was uniformly handled and packed; (4) it was presumably sent

a regular marketing agency on hand to make up carload shipments and dispatch them to market.

While the evidence is too meager to show clearly whether this first movement in co-operative livestock shipping entirely disappeared, it seems safe to assume that some of the older shipping groups continued in business for a long enough period to overlap the coming of the new movement under the wing of the Farmers' Alliance during the eighties. Apparently there was a considerable growth of co-operative marketing during this period, particularly in the states of Kansas and Nebraska, where we even have one survivor which dates back to the year 1883.

This early association was established at Superior, Nebraska (lying almost on the Kansas-Nebraska state line) in December, 1882,[2] when twenty farmers met in a country schoolhouse to organize in protest against the wide margins of the local livestock buyers. These disgruntled livestock farmers believed that the buyers were taking "rake-offs"—a practice which was facili-

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to the best market; (5) a representative of the company was at the point of sale. But in this case, the 'high cost of living' was not epidemic in Montreal and the society did not have the courage to try it again."

The *Ohio Cultivator* of March 1, 1850 describes an association of cattle drovers and feeders: "The cattle feeders and drovers of the Scioto Valley have formed themselves into an association and applied to the legislature for an act of incorporation under the title of 'The Association of Feeders and Drovers of the Scioto Valley.' The object set forth is 'to facilitate the mode and secure the safety of the sales of their stock in the Eastern markets.' In the preamble to their constitution they assert that the feeders and drovers of the Scioto Valley have labored for years under serious inconveniences and incurred great sacrifices in the disposal of their cattle in the Eastern markets."

[2] It was November, 1883 before the first car of hogs was shipped. See Hedges, Harold, and Filley, H. C., "Co-operative Marketing of Livestock in Nebraska," Nebraska Agricultural Experiment Station *Bulletin* No. 209, p. 6.

tated by the current method of lumping off stock by the head without weighing it. Other farmers on both sides of the state line soon joined the association and brought the charter membership to sixty. Many obstacles were encountered by the little group, such as failure of the railroads to furnish cars adequately or to permit the use of local scales; and local buyers attempted to bribe certain members with higher prices as an inducement to desert their organization. In spite of these handicaps, the association became welded into a compact unit which eventually drove from the field the five buyers who had been active in the vicinity.[3]

Undoubtedly the chief stimulative agency in the beginning of the present phase of the shipping association movement was the American Society of Equity, which developed very actively after 1903 in the state of Wisconsin and spread over into the adjoining area of Iowa and Minnesota. Here was a great dairy region in which a large number of farmers had small and miscellaneous lots of livestock to dispose of, thus creating a marketing situation peculiarly suitable for co-operative organization. Local Equity societies therefore made the co-operative shipping of livestock one of their most active interests, and shipping associations

[3] The Goodlettsville, Tennessee Lamb Club (organized in 1877) is a still older survival of early co-operative shipping experiments, although this historic club did not start as a shipping concern but as an organization of growers to auction their lamb crop. The arrangements were simple—calling only for the selection of three members to grade the lambs, to specify sale days, and to advertise for bids. Although at first this method brought a keener form of competition into the community, it was not long before buyers were winking at each other and paying the old scale of prices. Joint shipment of lambs to terminal markets was then resorted to by the club until local buyers were willing to pay in accord with the terminal market price less freight. Co-operative shipping was thus not the prevailing method of market disposal, but was used as an alternative whenever local prices were too low.

sprang up in large numbers in southwestern Wisconsin, northeastern Iowa, and southern Minnesota.

The first recorded associations which can be traced directly or indirectly to the influence of the American Society of Equity were at Postville, Iowa [4] (1904) and Durand, Wisconsin [5] (1906). At Litchfield, Minnesota [6] a shipping association was established in 1908 under independent auspices, but Equity influence led to the setting up of a rival organization at the same point shortly thereafter. At the start the tendency was to make livestock shipping merely one of several lines of commercial work carried on by the Equity local. In time, however, as the strength of the Equity Society waned, many of these associations incorporated under the new co-operative laws [7] and set themselves up as independent commercial organizations, while others severed the Equity affiliation without going through the formality of incorporation. Not a few of the associations started at that time have continued in business down to the present.

The Farmers' Union (the Farmers' Educational and Co-operative Union of America) has had much the same relation to the livestock shipping movement in Nebraska, southern and western Iowa, Kansas, and Missouri, although its influence was not expressed until several years later. The Farmers' Union local units,

[4] Nourse, E. G., and Hammans, C. W., "Co-operative Livestock Shipping in Iowa in 1920," Iowa Agricultural Experiment Station *Bulletin* No. 200, p. 403.

[5] Macklin, Theodore, and Schaars, Marvin A., "Marketing Livestock Co-operatively," Wisconsin Agricultural Experiment Station *Bulletin* No. 381, p. 5.

[6] Weld, L. D. H., "Statistics of Co-operation among Farmers in Minnesota," Minnesota Agricultural Experiment Station *Bulletin* No. 146, p. 17.

[7] The Rochdale type of law passed in Wisconsin in 1912 and by many neighboring states in the next few years. See Nourse, E. G., *The Legal Status of Agricultural Co-operation*, Chap. II.

like the Equity locals, served the members in the distribution of their products, as well as affording them a means for purchasing supplies co-operatively. There was little specialization of function in the early plan of the Farmers' Union, and in some sections it is still thought to be unnecessary to have more than one organization to handle the various activities of its members in a given community.

### II. RELATIONS TO FARMERS' ELEVATORS AND OTHER CO-OPERATIVE ENDEAVORS

The farmers' elevator movement also must be given considerable credit for lending encouragement to the development of co-operative livestock shipping associations. The period of rapid growth in the number of farmers' elevators antedated the expansion of co-operative livestock shipping by from five to ten years and afforded sound evidence that farmers' business co-operatives were practicable. Many of these co-operative elevators, especially in Nebraska, Iowa, South Dakota, and Minnesota, shipped livestock co-operatively as a side-line activity.[8] Often the stock was bought outright in the same way that grain was handled, profits being returned to stockholders or patrons on the basis of stock ownership or patronage. In other places, and especially in Farmers' Union territory, livestock was not bought by the local elevator, but was simply gathered together, shipped to market, and sold on consignment for the participating shippers. In some cases this business was handled as an adjunct to the work of a Farmers' Union store.

Other examples of successful co-operative business were also before the eyes of livestock producers. This

[8] Jesness, O. B., and Kerr, W. H., "Co-operative Purchasing and Marketing Organizations among Farmers in the United States," U. S. Department of Agriculture *Bulletin* No. 547, p. 28.

was particularly true in Minnesota and Wisconsin, there being 560 co-operative creameries in Minnesota in 1910 and 32 co-operative cheese factories in 1911, while in Wisconsin there were 347 co-operative creameries and 290 co-operative cheese factories by 1914.[9]

Breeding associations were another significant form of co-operative activity in dairy communities. The formation of such associations was accomplished by bringing together a few farmers who agreed to buy a sire in common, thus permitting the purchase of a purebred sire otherwise impossible. In 1910 the director of the Wisconsin Experiment Station said, concerning community breeders' associations: "The co-operative spirit among the farmers of the state is rapidly crystallizing through the development of community breeding associations for dairy cattle."[10] It was in these dairy regions, with their background of experience in creamery, cheese factory, and sire ring operation, that the first extensive development of livestock shipping associations took place.

The years from 1904 to about 1916 were formative in the development of co-operative shipping associations of the present type. In the earlier part of this period the shipping association was given a trial and, in the later years, after the trial had proved successful, many agencies contributed encouragement and enthusiasm to the promotion of the work. Growth, slow and irregular at first, gradually became more rapid. Early expansion was most marked in Minnesota which, within five years from the organization of the

[9] Black, John D., and Robotka, Frank, "Farmers' Co-operation in Minnesota, 1913-1917," Minnesota Agricultural Experiment Station *Bulletin* No. 184, pp. 15 and 21; Hibbard, B. H., "Co-operative Companies in Wisconsin," Wisconsin Agricultural Experiment Station *Bulletin* No. 238, cover page.

[10] "Report of the Director," Wisconsin Agricultural Experiment Station *Bulletin* No. 203, p. 31.

Litchfield association, had 115 livestock shipping associations, and three years later had 143.[11]

Wisconsin caught the fever in the years between 1912 and 1916 for, although in the former year there were only about a dozen associations,[12] by 1916 there were 120.[13] Iowa, the pivotal Corn Belt state, went into the movement more gradually. Although the Postville association in 1904 was four years ahead of the first Minnesota association, there were in 1910 but 18 associations, and even at the end of 1916 only 57.[14] In Kansas and Nebraska co-operative livestock shipping made comparatively little progress until the Farmers' Union developed strength in that territory from about 1908 to 1914.[15] Although a report of the Kansas State Board of Agriculture in 1915 recorded only 2 livestock shipping associations, a later study revealed that there were 59 in the state by January, 1916.[16] In Nebraska, although no figures have been given out for the earlier years, it is stated that since

[11] Durand, E. Dana, "Co-operative Livestock Shipping Associations in Minnesota," Minnesota Agricultural Experiment Station *Bulletin* No. 156, p. 8.

[12] Wisconsin State Board of Public Affairs, *Report Upon Co-operation and Marketing*, Pt. I (Advance Sheets), p. 60.

[13] Hibbard, B. H., and Hobson, Asher, "Co-operation in Wisconsin," Wisconsin Agricultural Experiment Station *Bulletin* No. 282, p. 17.

[14] The Iowa records are based on the date of organization of associations extant in 1920 and are subject to the objection that some of the associations may have died unrecorded. Nourse and Hammans, Iowa Agricultural Experiment Station *Bulletin* No. 200, p. 404.

[15] There was apparently a lapse of more than twenty years in Nebraska after the first co-operative shipping venture at Superior before the movement was resumed. See Hedges and Filley, Nebraska Agricultural Experiment Station *Bulletin* No. 209, p. 7.

[16] Macklin, Theodore, "Co-operation Applied to Marketing by Kansas Farmers," Kansas Agricultural Experiment Station *Bulletin* No. 224, p. 59. This bulletin also gives incomplete figures for the time of establishment.

1906 "the growth in numbers has been rapid, even though it has been erratic." [17] Available statistics for Kansas and Nebraska are at best a poor indication of the spread of the co-operative shipping idea, for co-operative shipping was part of the work of many local elevators and of many local Farmers' Unions. These five states—Minnesota, Wisconsin, Iowa, Nebraska, and Kansas—are entitled to recognition as the pioneers of the livestock shipping association movement.

Co-operative livestock shipping was well established by 1916. There were at that time 500 organizations in the United States which were shipping livestock in a co-operative way, centered in general in the North Central and western Corn Belt states.[18] The movement had attained sufficient size and had engendered sufficient confidence so that the government had interested itself in its promotion through the Office of Markets and Rural Organization which had been created in 1914. In furtherance of this work, a government bulletin was published in 1916 "to give to farmers and stockmen who have small numbers of livestock to sell information as to how to organize for the purpose of making carlot shipments." This information, it was thought, "should be of special interest to communities which do

[17] Hedges and Filley, Nebraska Agricultural Experiment Station *Bulletin* No. 209, p. 7. L. S. Herron, editor of the *Nebraska Union Farmer*, writes us concerning this development: "Co-operative shipping by elevators was already established before the Farmers' Union came to Nebraska in 1911, but the Farmers' Union gave a great impetus to the organization of co-operatives of all kinds so that in a few years the number of co-operative elevators had been doubled and many straight shipping associations had been formed." Sept. 27, 1927.

[18] Of these about 200 were in Minnesota and, in ranking order, Wisconsin, Nebraska, Iowa, North Dakota, South Dakota, Kansas, Michigan, Illinois, Indiana, and Ohio followed. Doty, S. W., and Hall, L. D., "Co-operative Livestock Shipping Associations," U. S. Department of Agriculture *Farmers' Bulletin* No. 718, p. 2.

not have satisfactory local markets for livestock and where co-operative shipping associations are feasible."[19] The state agricultural colleges and Extension Services were showing the same tendency as the United States Department of Agriculture toward broadening their work to include economic problems. Market specialists were added, and a continuous program of work on problems of distribution and co-operative organization tended to acquaint farmers more and more widely with methods in this field and with examples of successful co-operation. This furnished a broad educational background, the significance of which is not to be ignored.[20]

The foundations were now laid, and the pioneer phase of livestock shipping association development may be said to have passed. Associations had progressed from simple and rudimentary forms into an organized agency for the marketing of livestock. By 1916 co-operative shipping was no visionary project but an accomplished fact; a period of rapid expansion lay just ahead.

[19] *Ibid.*, p. 1 (footnote). This bulletin was given extended and favorable comment by the agricultural press, and editors of farm papers followed these notices with articles explaining the manner of establishing and operating associations for co-operative livestock shipping.

[20] In some sections, indeed, this gained so much momentum as to carry over into the field of actual organizational work. This will be discussed at some length in the following chapter.

# CHAPTER II

## THE STAGE OF RAPID EXPANSION

The growth in numbers of shipping associations was rapid from 1917 to 1920. The latter year marked the peak of organizational activity as a whole, although in some states expansion continued at a brisk pace for several years longer. This rapid spread of the shipping association movement was in part the result of some general forces and circumstances, such as public encouragement of marketing research and education and the stimulus to co-operative efforts due to the war.[1] Besides these general influences, the movement was strongly affected by local situations in different sections of the country. In view of the variation in accordance with local production and marketing conditions, we shall proceed with a somewhat detailed discussion under five regional subdivisions.

### I. THE CORN BELT

In the co-operative marketing movement among livestock producers hogs have greatly overshadowed all other classes of livestock. The area embracing Indiana, Illinois, Iowa, eastern Nebraska, and portions of the contiguous states both north and south—the Corn Belt—produces the bulk of the nation's commercial

[1] Even the "old line" companies of the terminal markets became, at the height of the movement, an active force in stimulating the formation of new associations. The majority of these firms, to be sure, were indifferent to co-operation or openly hostile. Others, however, sensed that the movement would proceed in spite of them, and that the wisest policy was to cultivate the good-will of these organizations and assist them in putting their business on a sound operative basis. Firms with this point of view solicited the business of co-operative shipping association managers, and rendered no little assistance

hog supply as well as a considerable amount of cattle, calves, and sheep; and it was here that the most extensive development of the shipping association movement took place. Many farmers of this region had been accustomed to ship their own stock in carload lots to one or more terminal livestock markets to which they were tributary, whereas the smaller producers had sold to a local buyer who made up carlot shipments. Such a simple market procedure in a section where producers were pretty well informed as to markets and prices was one which could rather easily and with practically no capital outlay be transferred to a co-operative basis. The progress of this movement in the several states may be briefly sketched.

Iowa is the premier corn-hog state, and was a pioneer in the development of co-operative livestock shipping. We have already noted the beginning at Postville in 1904 and the organization, during the twelve years which followed, of some 57 associations which attained a fair degree of permanency. Upon this foundation the movement went forward with such great rapidity that by 1920 a careful survey disclosed a total of 610 regularly organized shipping associations. Besides these independent organizations "there were 57 shipping points which were served by co-operative associations in nearby towns and some 75 or more farmers' elevators which bought stock outright and sold it as part of their business operations. All told,

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in devising effective means of handling stock, pro-rating returns, and accounting for the proceeds. One of the largest firms on the Chicago market employed a full-time man to handle their relations with co-operatives. He had formerly been employed by the U. S. Department of Agriculture and various state organizations. His work as a representative of the commission company was directed along educational and promotional lines. Taken as a whole, these activities of the "old line" commission firms were by no means a negligible influence in the expansion of the co-operative shipping movement.

then, there were, by the end of 1920, more than 700 towns or villages in Iowa where livestock was being handled by farmers' organizations on some basis more or less perfectly co-operative in character." [2]

Since 130 of these associations had been established in the single year 1919 and 311 in 1920 at the peak of the enthusiasm, it was but natural that many deaths and some consolidations should take place during the next few years. However, in spite of ups and downs, the volume of business transacted appears to be fairly well established at about the level attained in the year 1920. At that time it was estimated that co-operative shipments made up approximately one-fourth of the total of all livestock shipments from the state. The percentage of hogs shipped co-operatively was larger than this figure and the percentage of both cattle and sheep considerably smaller. It is generally conceded that the co-operatives still continue to handle about 25 per cent of the total hog shipments of the state.[3]

At the height of the movement, enthusiasm for co-operative organization brought the county agricultural agents very actively into the work of forming shipping associations, and since 1920 there has been a state federation of local shipping associations which has taken over definitely the task of aiding in organization work as well as other branches of service to its members.[4]

[2] Nourse and Hammans, Iowa Agricultural Experiment Station *Bulletin* No. 200, p. 404.

[3] For a further discussion of this topic, see FitzGerald, D. A., "Local Co-operative Livestock Marketing Associations in Iowa since 1920," Iowa Agricultural Experiment Station *Bulletin* No. 254, pp. 10-11.

[4] During the year 1922 the Iowa Farm Bureau Federation maintained a livestock marketing department. Its director was occupied chiefly in promoting co-operative terminal selling, although some attention was given to the organization of shipping associations. See p. 94.

In Illinois and Indiana the development of livestock shipping associations was less spectacular than in Iowa. The majority of such associations were organized between 1919 and 1924 through the livestock marketing departments of the state Farm Bureaus.[5] These associations were generally established as independent agencies having no connection with farmers' elevators or other co-operative work. In a few instances they were organized on a county unit basis, but this was the outgrowth of local conditions rather than a reflection of any clearly defined policy on the part of the state organizing agencies. The general character of the business is similar to that in Iowa, with hogs constituting much the most important item. There are at the present time about 400 associations in Illinois[6] and slightly over 100 in Indiana.[7] Of these, 15 to 20 Illinois associations and 8 or 10 associations in Indiana are of the county-wide type. Both numbers of associations and volume of business are now definitely below the peaks established a few years ago.

The eastern counties of Nebraska are essentially a continuation of the corn-hog belt of Iowa. This state, which claims the oldest living livestock shipping association (Superior, 1883), participated quite actively in the expansion movement of the war and post-war years. Possibly as a result of Farmers' Union influ-

[5] R. C. Ashby of the University of Illinois estimates that 80 per cent of the Illinois associations may be ascribed to Farm Bureau influence. Letter of Sept. 23, 1927.

Lee R. Highlen, director of the Livestock Marketing Department of the Indiana Farm Bureau, in a letter of Oct. 8, 1927, estimates that 90 per cent were organized under Farm Bureau auspices in Indiana.

[6] Letter of Ray E. Miller, director, Livestock Marketing Department, Illinois Agricultural Association, July 26, 1929, and subsequent reports.

[7] Letter of Lee R. Highlen, Feb. 16, 1929, and subsequent reports to R. H. Elsworth of the Bureau of Agricultural Economics, U. S. Department of Agriculture.

ence, livestock shipping in Nebraska was combined with the business of co-operative stores or farmers' elevators in a larger number of cases than in the states to the east. By 1925 a survey of the state disclosed some 400 organizations shipping livestock co-operatively, but it was estimated that of these only about one-third were engaged exclusively in shipping livestock whereas two-thirds were "elevators or stores shipping livestock as only one part of their business, quite often considering it merely as a side line." [8] In many of these instances livestock was bought outright by the elevator or store rather than shipped on consignment for the producer's account.[9]

On the southern fringe of the Corn Belt we find in the northeastern counties of Kansas and a considerable area of Missouri that co-operative livestock shipping, which apparently had some slight beginning prior to 1916,[10] pushed forward with the major Corn Belt states during the expansion period. By 1921 there were at least 300 shipping associations in successful operation in Missouri, covering practically all parts of the state in which commercial shipping was important. Of 275 associations studied in March, 1921, "129 were organized under the auspices of the Missouri Farmers' Association, an organization commonly known as the Farm Clubs. Approximately 100 were organized as a result of activities of county Farm Bureaus. A comparatively small number were started under Farmers' Union or Grange auspices. A considerable number

[8] Hedges and Filley, Nebraska Agricultural Experiment Station *Bulletin* No. 209, p. 9.

[9] See Chap. IV for discussion of co-operative shipping methods.

[10] Macklin, Kansas Agricultural Experiment Station *Bulletin* No. 224, p. 59. Loomis, Ralph, "Status of Co-operative Livestock Marketing in Missouri," *Journal of Farm Economics*, July, 1921, pp. 142-43.

have started without assistance from any overhead farm organization."[11]

Apparently the peak of organizational activity in Missouri was passed in 1920, although growth continued rather vigorously through 1923. A second study showed a total of 463 livestock shipping associations in 1925.[12] Of this total, 42 were adjuncts of farmers' elevators and 72 were attached to "produce exchanges."[13] As in other states, the failure of weak or overstimulated associations has introduced a weeding-out process which was particularly marked about 1923, but the movement as a whole appears to have been established on a permanent basis, effectively adjusted to other co-operative endeavor in this state.

Returning now to the northern edge of the Corn Belt, we observe that co-operative shipping is a factor also in the marketing arrangements of the Dakotas. The area of corn growing has in recent years been pushing steadily into these states, and the increased production of livestock for market has been accompanied by a growing interest in co-operative methods of marketing. In South Dakota the volume of shipments to be handled at any one station is not large, and it appears that a majority of the shipping points are served by farmers' elevators rather than by separately organized livestock shipping associations. Thus it has been estimated that possibly 125 of the farmers' elevators of this state handle livestock, and that in addition some 75 or 100 separate co-operative shipping asso-

[11] *Ibid.*, p. 142.

[12] Thomsen, F. L., and Thorne, G. B., "Co-operative Marketing for Missouri," Missouri Agricultural Experiment Station *Bulletin* No. 253, p. 17.

[13] The produce exchange is a rather distinctive Missouri institution, the outgrowth of the Farm Club movement of that state. It handles a variety of shipping and supply buying activities for its members, being a natural adaptation to the diversified character of agriculture in most sections of Missouri.

ciations have been formed. As for North Dakota, a recent investigation [14] indicates that co-operative shipping associations began in that state in 1913, growing to the number of 114 by 1926 and to 127 in 1927. The majority of these are independent organizations, but in a few instances livestock is handled as a side line by farmers' elevators, creameries, or other shipping organizations.

## II. THE DAIRY STATES

From the beginning one of the strong motives for the formation of co-operative livestock shipping associations has been the providing of an economical means of disposing of small numbers of livestock by farmers who were not specialized producers of meat animals. This is particularly true in the case of dairy farmers who from time to time have veal calves, dry cows, bulls, or a few hogs to dispose of. This influence was unquestionably prominent in the early establishment and rapid growth of the co-operative shipping movement in the great dairy states of Minnesota and Wisconsin.

From its early start in Wisconsin in 1906 [15] co-operative shipping development was steady but not spectacular until about 1917. The high tide of organization during the next two years carried the number of recorded associations from approximately 240 to 350, besides which it was reported that there were many unrecorded organizations or co-operative groups shipping livestock though engaged primarily in the handling of other commodities. An estimate of 500 associations

[14] Benton, A. H., and Seielstad, H. E., "Co-operative Marketing of Livestock in North Dakota," North Dakota Agricultural Experiment Station *Bulletin* No. 223.

[15] Macklin and Schaars, Wisconsin Agricultural Experiment Station *Bulletin* No. 381, p. 5.

was made as the total on January 1, 1920.[16] Since that time there has apparently been some decrease [17] in the number of associations, due rather to their inability to adapt themselves to changes in marketing methods and to the inevitable weeding-out process than to failure of co-operation as such. These associations continue to serve practically all of those sections of southern and central Wisconsin in which livestock production is prominent.

As for Minnesota, the situation is broadly similar. In this state co-operation began early and grew steadily. It was favored by widespread acquaintance with the earlier and very successful development of co-operative creameries. It responded, as in Wisconsin, to the desire for finding a more economical outlet for small numbers of miscellaneous livestock. The volume of shipments, however, and consequently the commercial success of the associations, was increased by reason of the fact that swine production has been growing in southern and central Minnesota, thus supplementing in a very favorable manner the sources from which volume of business could be built up. In fact, the co-operative livestock shipping business of Minnesota has come in recent years to resemble very strongly that of the states of the Corn Belt proper, and there is no distinguishable difference between it and that part of the Iowa movement which is located in the northeastern part of the state where dairying is prominent.

The Minnesota movement, furthermore, is noteworthy by reason of the fact that the local associations early developed a strong overhead service organization which in turn established a terminal selling agency.

[16] Hibbard, B. H., Foster, L. G., and Davis, D. G., "Wisconsin Livestock Shipping Associations," Wisconsin Agricultural Experiment Station *Bulletin* No. 314, p. 4.

[17] Macklin and Schaars, Wisconsin Agricultural Experiment Station *Bulletin* No. 381, p. 4.

These features of the movement will be discussed in subsequent chapters.

### III. THE EASTERN STATES

Toward the east the Corn Belt fringes out into areas of general farming in which calves, common grades of cattle, and sheep assume considerable importance as sources of the business of shipping associations, and where hogs, though abundant, do not dominate the situation as they do in the heart of the Corn Belt. The southern part of Michigan went through an active period of organization about 1917 to 1920 and has maintained the business on an apparently permanent basis of success since that time.[18] A striking feature of the Michigan situation has been the close connection between co-operative livestock shipping and the county marketing organizations affiliated with the state Farm Bureau Federation.

In Ohio the movement began relatively late. Although scattered associations had been established in northern Ohio and northeastern Indiana by 1916,[19] co-operative shipping did not strike the popular fancy until after it had achieved a considerable reputation in other sections.[20] The state and county Farm Bureaus then (1920) took over the idea in co-operation with the Extension Service and activity became gen-

[18] Clayton, C. F., and Horner, J. T., "Farmers' Co-operative Buying and Selling Organizations in Michigan," Michigan Agricultural Experiment Station *Special Bulletin* No. 171, pp. 10-11.

[19] Likewise some farmers' elevators in this section had dealt to some extent in livestock.

[20] An explanation for the tardiness of the shipping association movement in Ohio is given in Ohio Agricultural Experiment Station *Bulletin* No. 375, p. 34. The reasons given may be summarized as: (1) Ohio agriculture is diversified so that there has been less specialization of particular crops, such as livestock; (2) prosperity has been general in the state, giving little encouragement to co-operation as a means of alleviating discontent; (3) keen competition for livestock set up by interior

eral. As a consequence within a few years associations were operating in almost every important livestock county. In not a few instances the manager of the livestock shipping association also served as manager for a farmers' supply buying group.

By 1920, when the Farm Bureaus took up the work of organizing associations for the co-operative marketing of livestock, experiments in co-operative shipping in other places had suggested a form of organization that could be adapted for this entire region. After considerable study, and an inspection trip made to other states in which co-operative shipping was carried on, the Farm Bureau of Ohio, combining with the state federation of livestock shippers (an organization uniting the few local associations already established), presented a state-wide plan for the creation of shipping associations which were to be organized on a county basis and joined together in one state headquarters organization.[21] The plan was popular from the beginning, as it was thought to secure control of the product to the farmer. Several county associations were organized in the fall of 1920, and by April, 1921 there were 20 companies making reports to the central organization. This number had grown to 40 in December, 1921

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packers and terminal markets has resulted in paying fair prices at the farm, thus destroying the incentive for organization in order to remedy local injustices.

To cite diversification as a cause of non-interest in co-operative shipping seems to run counter to the explanations given elsewhere, as for instance in the dairy states which we have just been considering. The real point of this argument would seem to be that, Ohio being a general farming rather than a specialized livestock area, it would not pile up such a volume of co-operative shipments as would states like Iowa, Illinois, and Nebraska in the heart of the corn-hog region.

[21] In Chap. VI (pp. 96-99) the Ohio plan is treated in considerable detail. See also pp. 61 and 81.

and to 60 in 1923.[22] At present there are about 50 county associations functioning, representing between 175 and 200 local shipping points. The distinctive method of selling to which this has given rise will be discussed in Chapter IV.

Across the Ohio line in West Virginia some co-operative livestock shipping, largely of grass-fed cattle and sheep, is carried on; and there are traces of the movement in Pennsylvania.[23] In the main, however, we pass here into livestock deficit territory, and Ohio marks practically the eastern boundary of the movement.

## IV. THE SOUTHEAST

The co-operative marketing of livestock has attracted considerable attention in the South during recent years. The movement in this section, however, differs considerably from co-operative marketing in the Northern states which we have just been discussing. We may note two fairly distinct, though closely related, reasons for this difference.

In the first place, the interest in co-operative livestock marketing in the South has proceeded in step with the interest in expanding livestock production as a part of the general program of diversification in Southern agriculture. In an attempt to get away from the old one-crop system of the cotton-growing South, emphasis has been placed on the production of corn and other feed crops and the raising of cattle and hogs in sufficient numbers to supply local needs and as rapidly as possible a surplus for shipment to terminal markets.

[22] Wallace, B. A., "Co-operative Livestock Marketing in Ohio," Ohio Agricultural Experiment Station *Bulletin* No. 375, pp. 36-37.

[23] It is of interest that the county unit plan of shipping association has been popular in West Virginia, where 17 county units were reported as active in 1926. Federal Trade Commission, *Report on Co-operative Marketing, 1928*, p. 129.

As such programs of diversification succeed, and as the marketable supply of livestock increases, the interest in co-operative marketing is stimulated[24] and, as livestock production proves unadaptable to a section or as the trend of cotton prices weakens interest in other lines of agricultural production, the co-operative livestock marketing movement declines.

There is a second contrast in the Southern states as compared with those of the North. Such co-operative marketing of livestock as there has been has ordinarily been stimulated and directed, if not actually conducted, by state departments of markets or market specialists connected with agricultural colleges, Experiment Stations and other agencies, such as railways, local chambers of commerce, and the packers who were interested in stimulating production in the region, rather than having grown up among and been carried on by farmers or farmers' organizations. This is largely due to the fact that the scarcity of livestock and unfamiliarity with livestock marketing and marketing methods have made the farmers of this section doubtful of their ability to undertake enterprises of this sort or unskilful in carrying them out. In fact it is not too much to say that in many cases it has been necessary, if farmers were to be interested in the production of livestock at all, for those who were attempting to stimulate this new line of production to assure the farmers that any market surplus which might result would be taken off their hands and marketed for them. In order that

[24] The livestock situation in the South presents a rather typical illustration of a condition which has frequently proved conducive to co-operative action elsewhere. That is to say, there are no important local markets and the large markets which must be depended upon for the disposal of any considerable surplus are located at a long distance. This has often been pointed out as one of the reasons for strong development of horticultural associations in California and others in remote specialized areas of production.

they might get the maximum returns from such sales and be encouraged to continue in livestock production, the marketing has been conducted on a group basis and the net proceeds returned on the co-operative principle to those who produced the stock.

Virginia probably partakes more of the character of the Northern states than any of the others in this group, inasmuch as cotton growing has been but a minor factor in agriculture and the production of livestock an important agricultural enterprise for many years. Shipments of stock have gone not only to state markets, such as Richmond and Roanoke, but also to Baltimore, Lancaster, and Jersey City. In 1921 the state turned its attention to the co-operative marketing of livestock, and the state Division of Markets and the Extension forces of the state agricultural college actively developed the work of co-operative shipping. County agents commonly served as the promoters of such work, and both the Farm Bureau and the Farmers' Union lent it their support. More than 20 associations were created in the years 1921 and 1922, but of these only 6 are still in existence.

This reduction in numbers, however, does not convey an entirely correct impression, since there has been a tendency toward concentration of the business in the hands of a smaller number of organizations. For instance, one association, located in Montgomery County, "has prospered so well that it has taken over the work in counties adjacent to Montgomery County, and this association now covers six or eight counties and has four or five sub-managers helping to run the business." In 1928 this organization shipped 206 cars.[25] Two other successful associations are functioning in the Shenandoah Valley, which is the heart of

[25] Letter of C. C. Taylor, agricultural economist, Virginia Agricultural and Mechanical College, March 13, 1929.

the livestock producing territory. Present efforts are directed toward increasing the efficiency of a small number of strong organizations which extend their operations over a comparatively large territory and conduct their business through sub-managers rather than through the multiplication of a large number of small independent operating units.

Conditions leading to the development of the co-operative livestock shipping movement in North Carolina are set forth in the *Farmers' Market Bulletin* of the North Carolina Extension Service of April, 1922, as follows:

> As the cotton boll weevil advances over the state there will be a greater increase in hog production in those sections than ever before, and when this happens the natural question that the farmer is going to ask himself is, "What am I going to do with my surplus hogs?"
>
> In the past each farmer who has produced a few hogs other than those for home use has looked to his local butcher to use them. This causes a great variation in the prices of hogs and makes it almost impossible for the farmer to get what his hogs are worth because he competes with other farmers who are doing the same thing.
>
> Now the safe and sane thing to do is to consider putting these extra hogs on the market in the regular channels that farmers in the hog producing section of the West and farmers west of us where the cotton boll weevil has forced the farmers to raise more hogs have used, and that is the selling of these hogs as live hogs on the central markets.
>
> Naturally you will ask how this can be done. The answer is simple. Use what is known as co-operative shipping.

In encouraging the extension of such associations the Division of Markets has actively co-operated with the county agents and vocational teachers. "The Extension Service directs the production and feeding of all livestock preparatory to the time of marketing, and then the actual shipping and selling is done under the

supervision [of] or in co-operation with the Division of Markets." The first recorded shipment of livestock co-operatively in North Carolina was made from Iredell County in 1921 under the supervision of the county agent. In 1924 there were 34 cars of hogs shipped from 14 counties. In 1927 the number had increased to 250 cars.[26] "In these shipments the Division of Markets furnished information and either directly or indirectly supervised the making of schedules and the sales." [27]

Farther south co-operative shipping has had comparatively little growth. However, the marked decline of cotton production in this region is causing much attention to be directed toward substitute lines of production. In proportion as livestock raising expands in this territory, we may look for a renewed growth in co-operative marketing.

To the west, Alabama has shown some activity in the direction of co-operative livestock shipping, though to only a limited extent in the form of regularly organized co-operative associations. As in the states we have already been passing in review, much of the stock has been shipped in the name of the county agent or a local bank, or the county agent has simply arranged a sales day at which producers bring in their surplus livestock to be sold at the local shipping point to whatever buyers can be interested.

In the last few years there has been gradual improvement in the situation in the cattle industry and increasing difficulties in the cotton industry. As a result of boll weevil depredations, the northward migration of negro labor, and the keen competition of

[26] It is also of indirect interest that 180 cars of poultry were shipped co-operatively in this year, a movement which began in 1923 through the encouragement of the Division of Markets.

[27] Letter of George R. Ross, chief, North Carolina Division of Markets, Oct. 18, 1927.

the western end of the Cotton Belt, there has been considerable abandonment of cotton acreage in the Black Prairie Belt of Alabama and renewed interest in livestock as an alternative line of production. A recent survey says:

> Cotton production has become so hazardous an undertaking in many parts of the Black Prairie Belt that livestock farming now appears to offer the best means of properly utilizing the natural resources of these sections . . . The extensive acreages of land that are either partly or well sodded in Bermuda or Johnson grass can be more economically used for grazing and for hay production than for growing cotton.[28]

Such a development may reasonably be expected to result in a revived interest in co-operative livestock marketing.

Mississippi was an early leader in the diversification movement and has paralleled this with early and continued interest in co-operative shipping of livestock.

> From the year 1910 to 1916 or 1917 the state underwent a rather important agricultural revolution. The acreage in cotton decreased 15.9 per cent, and the production of corn increased 42.6 per cent. The acreage and production of oats increased 150 per cent, and hay increased more than 200 per cent. Alfalfa, soy beans, cow-peas, and other forage crops were increased greatly. Lands thrown out of cultivation in some sections produced grass for the grazing of cattle. The increases in livestock from the 1910 census to January 1, 1919 were: dairy cattle 27.7 per cent, other cattle 21.4 per cent, swine 76.6 per cent.[29]

The earliest organized co-operative livestock shipping in the South of which we have record was conducted for some of these new livestock producers of Webster

[28] Crosby, M. A., "Systems of Livestock Farming in the Black Prairie Belt of Alabama and Mississippi," U. S. Department of Agriculture *Farmers' Bulletin* No. 1546, p. 34.

[29] Knapp, Bradford, "Marketing and Purchasing Demonstrations in the South," U. S. Department of Agriculture *Yearbook*, 1919, p. 210.

County, Mississippi in 1912 by their local county agent. Similar co-operative shipments were made from time to time, and three years later this form of activity was taken over in Yazoo County, where it had a more vigorous growth. The business flourished throughout 1917, 1918, and 1919, being greatly stimulated by the relatively high price of hogs as compared with cotton in this war period. But in 1920 there was a change of fundamental conditions; the price of cotton went up and prices of livestock came down. The livestock industry was not sufficiently established to withstand the shock of this change and fell off rapidly. Co-operative shipping showed a corresponding decline.

Arkansas, Tennessee, and Kentucky conform in a general way to the characteristics of the states of the Southeast already discussed. The farmers of Tennessee have long made a practice of uniting shipments for the purpose of making up carload lots. At the peak of the movement (about 1920) there were some 38 associations actively engaged in shipping; since that time the majority of these associations have passed out of existence.[30]

In Kentucky the most distinctive feature has been the development of co-operative sales at stockyards markets established by the Farmers' Union. This, however, is a matter of terminal selling rather than local shipping.[31]

## V. THE WEST

Beginning with Oklahoma and Texas we get into the old ranching country, with cattle predominating and large operators much in evidence. This territory

[30] A letter from C. E. Brehn, assistant director, Extension Service, College of Agriculture, University of Tennessee, dated Oct. 12, 1927, states that so far as he could ascertain there were then only two regularly organized shipping associations.

[31] See footnote 5, p. 209.

does not lend itself particularly to the co-operative shipping of livestock. County agents and Extension workers were instrumental in promoting co-operative shipments, and a limited number of shipping associations were established in Oklahoma, Texas, and Colorado [32] beginning about 1918 and were more or less actively prosecuted until 1922 or 1923; but only a few have survived in this region.

While the large producers of this section ship their own stock, chiefly cattle and sheep, in carload lots and have no need of a shipping association, they have been as much interested as the farmers of other sections in having their stock sold co-operatively at the terminals. In recent years also there has been considerable interest in selling livestock direct from the ranges to feeders in the general farming sections of the North Central states.

The most vigorous phase of Western development has been that of the California Cattlemen's Association, which was established in 1924 and which three years later set up the Western Cattle Marketing Association. It is primarily an agency for pool selling to Pacific Coast slaughterers, and draws livestock shipments from seven Far Western states from New Mexico to Washington. This development will be given separate and detailed discussion in Chapter XII.[33]

## VI. SUMMARY

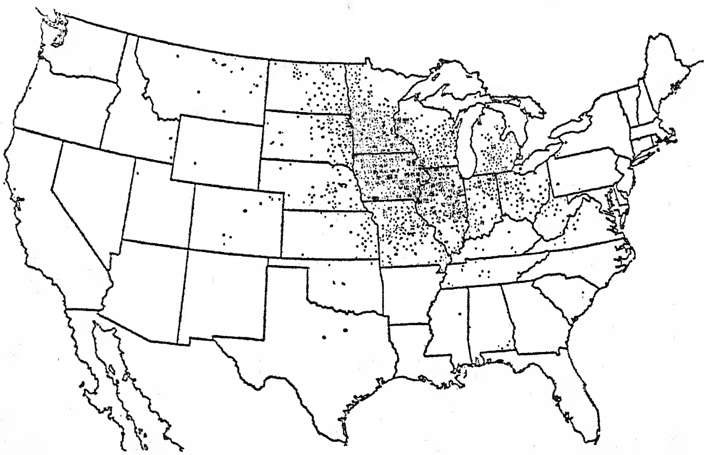
The attempt to summarize the growth of the shipping association movement involves difficulties at the present time. We are in a transitional stage between two epochs. The crest of shipping association develop-

[32] Montana, primarily a range state, likewise has had some dozen or so local shipping associations.

[33] The hog auctions organized by the California Farm Bureau Federation are also discussed separately on pp. 203-210.

ment as such was probably attained several years ago. Since that time the growth of trucking and direct marketing has caused considerable change and a certain amount of decline among local shipping associations. There has been discernible a tendency toward consolidation of previously separate local units and the increase of selling functions on the part of regional units and various overhead organizations which are

ASSOCIATIONS MARKETING LIVESTOCK, 1928



*Courtesy of U. S. Department of Agriculture*

coming more actively into the field of co-operative livestock marketing. These newer developments, although still in their formative stages, promise to displace the large number of highly local associations with a smaller number of larger units integrated much more closely into a comprehensive selling organization. The figures which we shall present here must be taken, therefore, as reflecting a phase of development which is now drawing to a close rather than indicating a trend which may be expected to project itself into the future.

In 1930 the United States Department of Agriculture reported that "there are today more than 2,000 local livestock shipping associations . . . In 1928 [they] had an estimated membership of 450,000, and were forwarding to market livestock with a sales value of $320,000,000." [34] The distribution of these shipping associations is shown in the map on page 37. It will be noticed that a large percentage of them are in the Corn Belt and immediately surrounding states. The

FARMERS' CO-OPERATIVE ASSOCIATIONS MARKETING LIVESTOCK, ESTIMATED MEMBERSHIP, AND ESTIMATED BUSINESS, BY STATES, 1927–28

| State | Number of Associations | Estimated Membership | Estimated Business | |
|---|---|---|---|---|
| | | | In Dollars | *As a Percentage of Total* |
| Iowa | 430 | 80,000 | 77,800,000 | *24.3* |
| Illinois | 330 | 78,000 | 64,810,000 | *20.3* |
| Minnesota | 359 | 70,000 | 49,730,000 | *15.5* |
| Missouri | 151 | 41,000 | 21,280,000 | *6.7* |
| Ohio | 70 | 32,000 | 20,500,000 | *6.4* |
| Indiana | 90 | 26,000 | 18,390,000 | *5.8* |
| Wisconsin | 172 | 38,000 | 16,430,000 | *5.1* |
| Michigan | 93 | 25,000 | 13,250,000 | *4.1* |
| All others | 317 | 60,000 | 37,810,000 | *11.8* |
| Total | 2,012 | 450,000 | 320,000,000 | *100.0* |

table on this page (from Elsworth) shows that more than 86 per cent of the membership and 88 per cent of the business came from the eight states Iowa, Illinois, Minnesota, Missouri, Ohio, Indiana, Wisconsin, and Michigan. Sixty per cent of the total of co-operative shipping is done by associations in the three states Iowa, Illinois, and Minnesota.

[34] Elsworth, R. H., "Co-operative Marketing and Purchasing, 1920-1930," U. S. Department of Agriculture *Circular* No. 121, p. 35.

# CHAPTER III

## MOTIVES AND AIMS

We have been looking at the livestock shipping association chiefly from the historical and statistical point of view, noticing the time and rate of growth and the geographic dispersion of the movement. Only incidental attention has been given to the question why farmers were interested in co-operative organization or what they expected—or were led by the organizers to expect—to accomplish by the new method of marketing their product. To these two issues we shall now give attention. We shall, however, preface our discussion with a brief explanation of the country buying system, since it is this system that co-operative livestock shipping has tended to displace.

### I. THE COUNTRY BUYING SYSTEM

The country buyer is a local middleman. He performs the function of gathering a load of cattle, hogs, or sheep from various farmers and forwarding it to a terminal stockyards market or other wholesale outlet. He thus makes a local market where the farmer may sell without the trouble and risk which would be involved in joining with his neighbors in shipping to more distant markets.

The precise nature of the functions performed by the country buyer and the quality of his service vary greatly from one local shipping point to another or in different sections. For example, at a busy shipping point in a heavy hog or cattle producing region the work of the buyer may consist merely in weighing and loading the stock, little solicitation being needed. In

this circumstance the country buyer may notify farmers through bulletin, local newspaper, or telephone as to when he plans to ship; or he may ship regularly on some specified day of the week and, in such cases, growers deliver accordingly. The country buyer customarily pays for stock at the time of delivery, the purchase price in general being stated as so much per hundredweight, although in some cases stock is still purchased on a per head basis.

Where there is no great surplus of stock in the community, the country buyer is called upon to undertake more varied and difficult services and to assume greater risks. It is not so easy to assemble carloads of stock, and consequently it is often necessary for the country buyer to go from farm to farm acquiring odd lots of stock of which he in time accumulates a carload. It is a fairly common practice for veal calves and lambs to be purchased in this way even in heavy livestock producing regions. Often the buyer operates a motor truck for gathering such purchases.

An increase of solicitation on the part of country buyers frequently results not from the fact that the community has a scanty volume of marketable livestock, but from the fact that the business attracts an increasing number of livestock buyers. The newcomer may seek to secure a volume of business by going out to solicit it direct from farmers rather than waiting for them to come to him at the shipping point. Naturally such a development causes the old shipper to become more aggressive in his relations with producers as a means of retaining his hold on the business. Where three, four, or even more buyers come to operate from a single shipping point, the result is that farmers are frequently called upon by prospective purchasers of their stock and that local buyers come to consume a considerable part of their time in driving over the

country seeking to purchase stock or list it for future delivery.

Where there are several competitive shippers it commonly results in there being a continuous cash market rather than one where stock is accepted only on the day of actual shipment or perhaps the day previous. Where country buyers assume the responsibility of providing a six- or seven-day market, somewhat more elaborate arrangements are required than those which we have previously discussed. In the simplest case, stock may merely be received at the railroad stockyards and held there pending the time of shipment. If this is done, the buyer shoulders a small added burden of risk and also the expense of feed and the necessity of giving sufficient care to see that the stock continues in good marketable condition.

The local buyer may, however, go much beyond this by providing barns and feed-lots of his own where he will take stock and feed, sort, ship, or re-sell in accordance with his judgment as to what is the most profitable course to follow. Under such conditions the local buyer plays a much more extensive rôle in the livestock business of the local community and performs several functions besides those of a mere shipper.[1] By culling out certain animals which are not in the best marketable condition and re-selling them to other farmers who are in a position to feed them to a more desirable market conditon, he acts as an equalizer of supplies and performs certain of the functions ordinarily left to the trader and feeder buyer in the terminal market. Insofar as he sorts stock into reasonably uniform carload

[1] Not infrequently a local buyer whose primary business is that of shipping stock out of the community may also purchase stock in other producing sections to be shipped in and distributed among the farmers of his community. This is often done with fresh cows in dairy sections and feeder cattle and lambs in the feeding sections.

lots and possibly holds it over holidays or breaks in the market, again he performs an equalizing function somewhat similar to that of the trader or "scalper."

Obviously the buyer who holds stock in the railroad yards or on his own premises rather than merely assembling for immediate shipment considerably increases his risks. Not only does he have his capital tied up and face the hazard of market declines, but there is also the possibility of death, disease, or loss of condition on every animal which he holds. Such risks, as well as losses in transit, must be offset against the chances of profit which he naturally has in view in undertaking this business.

Another marketing function performed by the country buyer, whether skilfully or clumsily, whether realized by his patrons or not, is that of selecting markets and making particular arrangements by which his stock will be sold in these markets. In some cases this means simply shipping all his stock at all times to the same commission firm, which he patronizes quite possibly from sheer force of habit or because one of the members or employees is a personal acquaintance or has done an aggressive job of soliciting his business. In other cases, however, the country shipper may make industrious and effective efforts to seek out a more satisfactory commission firm in a given market or to find some entirely different market outlet or combination of outlets which can be patronized to greater advantage at certain times or for certain species or grades of stock. Insofar as this is done, and insofar also as the buyer checks each return and makes sure that prices are as high as are warranted by the condition of the market and charges, dockages, and other deductions not out of line, he is increasing his gross return and thus more or less directly working in the farmer's interest, since the more the buyer receives

for his shipments the more he is in a position to pay the farmer for his stock.

A special instance of the effort of the local buyer to make connections with an especially advantageous outlet is to be found in the case of the local buyer who makes arrangements for selling stock to a particular packer, being designated ordinarily as this packer's representative at the given shipping point. As a rule this does not imply that all the stock which he buys will go to this packer or that the packer must take all that the buyer wishes to send him. It does, however, mean that the packer[2] looks to his regular or "protected" buyers at certain stations for at least the bulk of his supplies, and agrees that he will not buy stock from any other shipper at a point where he has a regularly designated country buyer. The bearing of this situation upon co-operative shipping will be discussed in Chapter XI.

Before leaving the question of country buying, however, we should mention country buying by packers' salaried representatives rather than by those dealing on their own account. These buyers operate in general like the other local buyers, but their market destination is the packing plant of the concern by which they are employed. Buyers who operate directly for packing concerns may serve more than one local community. Such local packer buyers receive general buying instructions as to numbers, grades, and price from the office of the packing plant, but naturally must be allowed considerable discretion in their actual trading

[2] Until recently this practice was not followed in the Mid-West by the "national" packers but was limited primarily to the local independents who are fairly numerous in the heart of the Corn Belt, and whose number and geographic range are increasing. To an extent also the practice has been followed by managers of concentration points (see pp. 181 and 188) who make somewhat permanent relations with local shippers as a means of assuring a dependable supply of stock of reliable quality.

operations. The buyer's knowledge of supply conditions in the producing region is the best possible, and as a result his judgment is given great weight by the buying manager at the plant.[3]

In some states, particularly in the West and Southwest, there are independent buyers who often operate over rather wide areas, sometimes through local representatives or sub-managers. Some of these concerns are indigenous to the section in which they operate, whereas others have headquarters in the terminals. In some cases they operate as buyer for a particular packing company under contract or otherwise.

These types of country buying concerns have had comparatively little vogue in the Corn Belt, where hogs predominate, or in the dairy states. They have been limited largely to cattle and sheep, and have not had great significance for the major part of the co-operative shipping movement.[4]

## II. DISSATISFACTION WITH THE COUNTRY BUYING SYSTEM

Co-operative livestock shipping arose as a protest against the existing system of country buying. Though the private buyer obviously performs services of a very important character, growers have had many grievances against the system. The primary charge has been that country buyers have taken too great a toll for their services.

The feeling against the country buyer on the ground that margins were excessive became especially strong

[3] What has been said above relates entirely to the salaried buyer for the packer who buys direct in the country and not for the manager of a re-load station or concentration point who receives his supplies to a considerable extent by rail, buying them from local independent shippers or co-operative shipping associations. For the method of operating concentration points, see pp. 181-85.

[4] See, however, pp. 185-87.

at the time of the war. It was a period in which marketing costs were rising through the increase of freight rates, stockyards charges, selling commissions, and local buyers' margins as an accompaniment to the advance in the general price level. It was not long before farmers began to charge local buyers with "profiteering," and to consider the possibility of enhancing returns by taking the work of marketing into their own hands.

Often it was asserted that there were too many local buyers operating in the same territory and that, by collusion or tacit understanding, they all protected one another by depressing prices or maintaining margins wide enough to make the business of the whole group profitable. So far as this was true it meant that too many buyers were kept in the business, that too much solicitation was being paid for out of the farmer's pocket without in any way increasing the volume of business or the level of prices. Indeed, it was quite generally felt that the solidarity of interest among buyers was such as to permit them to continue in the business without putting it on a high plane of either economy or efficiency.

A second charge was that prices were discriminatory. Even where the local buyer was quite evidently not waxing rich from the business, and was apparently paying on the whole as much as he could, it was alleged that this total might be quite unfairly distributed between different producers. For example, it was asserted that he paid a better price to the large producer whose shipment made an important item of business for him and tended to bear down on the price of the small shipper who had only a single animal or a small number to sell and these at infrequent intervals. It was likewise charged that where a shipper was operating at more than one point he often paid a better

scale of prices at a station where other shippers were operating and lower prices at a shipping point where such competition was absent.

On those classes of stock which made an important part of his business and an important part of the community's income the producer was much more likely to follow market quotations closely, to be informed as to grades and the market differentials which they commanded, and in general to be alert and critical of the practices of the buyer. But the man who had stock which fell in classes or grades which constituted a minor part of the livestock business of the locality, and on which questions of grade and condition were less clearly determined, often felt that he was heavily discriminated against in the prices which the local buyer paid.

Perhaps the most important phase of discrimination arose from the common practice of paying average prices rather than attempting to reflect closely the comparative values of different grades as established in the terminal markets. This practice has tended to penalize the producer of high quality stock and to give the owner of inferior grades more comparatively than he is entitled to.

Finally, we may note an abuse of the country buying system which may perhaps best be described as "unfair trade practice." Sometimes a country buyer so interfered with the channels of trade that the local shipping point ceased to be an open market or free outlet from the producer to the best demand with which he might otherwise get in contact. Certain strong country shippers who did an important business through the railroad stockyards of a country shipping station sometimes used their influence with the railroad station agent to make it practically impossible for any other would-be shipper to secure a car or to

find loading facilities available when he needed them. We have already referred to the fact that such country shippers did a certain amount of sorting and re-selling of feeders or other stock in the local community. The result of this practice would sometimes be that the buyer would keep the pens in a local stockyards in practically continuous use for such sorting operations or for the holding of small bunches of stock from one shipping day to the next. This situation doubtless grew in some instances quite naturally out of his legitimate commercial operations. In other cases, however, it appeared to be a conscious policy on his part, with connivance by the station agent, to have such "pen holders" always on hand, shutting out any other shipper who might desire to market through this station. On the one hand, this would prevent direct shipping by a single farmer or group of farmers and, on the other, would prevent the entrance of any other commercial shipper with such beneficial effect upon prices as his competition might introduce.

Somewhat analagous to this situation was the practice previously referred to in which a local buyer was designated as the exclusive representative of a particular packer at a given shipping point. This denied free access to such a nearby and otherwise advantageous market to anyone else in the community, thus permitting the buyer to profit by the whole of any differential advantage which such a market possessed above that of terminal markets to which there was free access.

While the dissatisfaction of farmers with the country buying system was not often nor vigorously directed against the buyer's inefficiency as a seller, this point assumed considerable importance when, through co-operative action, producer groups sought to improve the whole system of livestock marketing. We shall

now turn to this other side of the picture and examine the constructive proposals which were made and the precise manner in which it was suggested that greater economy and efficiency could be introduced into the business.

### III. AIMS IN CO-OPERATIVE SHIPPING

In setting forth the aims of the co-operative shipping movement it must be remembered that, "taken by and large, co-operators are long on practice and short on theory." [5] Many farmers made the initial move toward co-operative livestock marketing simply because they were "sore" at some particular private shipper or exasperated over the details of some individual transaction. Likewise, many communities were swept into the movement during the disturbed conditions of the war or early post-war period and did not stop to examine at all adequately the long-run tendencies in the business or long-run possibilities of improving the system of marketing. The "promoter" has been a factor in the movement also, often making his appeal to ignorance or prejudice rather than attempting to get an accurate analytical view of the whole situation. Furthermore, county agricultural agents and farm organization leaders have frequently hit upon co-operative work as a promising demonstration of the value of their services to the farmer, often measuring results by the number of associations established rather than by any lasting constructive work.

On the other hand, both in the early beginnings of the movement and in its later expansion and solid growth in our important livestock producing territory, there is evidence that both farmers and those who

[5] Nourse, E. G., "The Economic Philosophy of Co-operation," *American Economic Review*, December, 1922, p. 577.

organized and managed shipping associations had a clear-cut reaction to certain specific abuses and a reasonably logical notion of ways in which the situation could be improved. It would of course be absurd to suppose that every farmer who participated in co-operative shipping had any real perception of what it was all about. Nevertheless, along with all the economic nonsense and frothy evangelism which gathered about this as other popular movements, there is discernible on the part of the more articulate leaders some fairly recognizable marketing philosophy. Without intending to over-simplify or ascribe rationality to what was essentially irrational, it seems worth while to attempt to winnow out from all the discussion and activity of the period some statement of what it was that gave justification to the effort and to explain in what direction those who shaped the movement thought—more or less coherently—that they were going.[6]

In attempting to do this we shall note two principal goals toward which co-operative livestock shipping has moved in its effort to relieve old abuses or to create a more agreeable[7] and profitable system of marketing livestock. The major objective probably was to eliminate inequalities or discriminatory practices such as were discussed in the preceding section of the present chapter. A second important objective which was probably formulated only vaguely by the rank and file but which was often played up in roseate colors by the leaders was the future improvement in the

[6] We shall defer until Part III discussion of the extent to which these aims have been realized or the appropriateness of the type of organization or activity which was built up as a means of attaining the nominal objectives.

[7] The word "agreeable" is used advisedly since farmers were seeking not merely to enhance their pecuniary return but in greater or less measure to secure the spiritual satisfaction which "the independent farmer" derives from "having his own business in his own hands."

economy and efficiency with which the business would be carried on, through which net prices in the local market would be raised. This campaign for a larger proportion of the terminal market dollar was based on three proposals: (1) cutting out the profits of the private dealer, (2) eliminating waste and loss in operation, and (3) developing more efficient selling services.

The most obvious proposal of the shipping association was to reduce the middleman's toll taken by the country buyer by performing this service at cost. No longer were these middlemen to thrive on margins which covered not only actual costs but also whatever profit they could secure by any special arrangements or preferred position which they could build up for themselves.[8] In this the co-operative shippers were running true to the basic co-operative doctrine of service at cost, or the "non-profit" system of business.

We have stated above that the second line of attack through which co-operative livestock shippers hoped to secure higher net returns was through the elimination of waste and loss in operation. In this also they were operating on one of the distinctive principles underlying the whole scheme of co-operative business organization. Co-operatives have urged that taking over the distributive phase of their business on a group basis makes it possible to enlist the positive support of each member in such a manner as to improve quality, prevent loss, and reduce expense. The application of such a theory to the handling of livestock may be clearly shown in connection with several features of the business.

[8] In more than one case farmers have deferred the initiation of shipments through their associations or suspended them after once begun because they were reasonably satisfied that this potential competition had secured the remedying of abuses against which they complained.

For example, we have noticed that the country buying system often led to a large amount of solicitation which consumed the time of many buyers and involved the use of much horse flesh or gasoline power, the duplication of routes, and the waste of both buyer's and seller's time through calls upon identical farmers.[9] The co-operative system assumes that the farmer knows when he wants to sell and that the shipping arrangement can be made with the least outlay of effort by having the farmer list his stock over the telephone or personally when he is in town. It assumes also that he can deliver stock with his own teams or trucks or by trucks hired through the association at minimum cost, and that his personal interest will assure his giving the animals such care as to deliver them at the shipping point in the best condition. This means proper feeding,[10] careful treatment in loading, and shielding from extreme temperatures while on the way to town.

It was a notorious fact also that some country buyers were ignorant or careless as to the best methods of

[9] "Our association was a local affair started by a dozen or more of us farmers. We made a success of it so that the five buyers dropped out, one after the other, until they all had to quit." Letter of Aug. 26, 1929 from H. L. Halverson, manager of the Litchfield (Minn.) Livestock Shipping Association since its formation in 1908.

[10] The practice of "filling" was very flagrant under the country buying system. It was common for farmers to attempt to best the country buyer at any opportunity, and a popular way was to overfill the hogs or cattle just prior to weighing. In some instances, even, a farmer delivering a load of hogs to a country buyer at his local shipping point might stop his wagon a mile or so from the buyer's place of business and take a can of buttermilk or other feed from under the seat and give the stock all it would consume. This practice often resulted in reprisal by the buyer, who bought all stock at a heavy mark-off from the terminal price because he was not always able to know when the stock would be overfilled. The practice of overfilling resulted in a heavy loss in weight during shipment, and in hot weather the fact that the hogs were in poor condition for the

loading stock or preparing it for shipment to market. Here, too, the co-operative had constructive proposals. Managers were instructed not to use clubs or sticks in such a way as to bruise animals and injure their salability, nor unnecessarily to excite or overheat them in the process of loading. Frequently losses were due to lack of proper help at loading time, and this was often remedied in the co-operative because self-interest of farmers moved them to remain after delivery of their own stock and assist the manager in getting the animals on the car. Great emphasis was placed also on careful cleaning and suitable bedding of the car and in sprinkling hogs or suspending sacks of ice in hot weather. Toward the same end, care was taken that cars should not be so overloaded as to increase the hazard of death or crippling in transit.

As to the third proposal for the betterment of conditions through co-operative shipping, it was assumed that the associations could improve prices paid locally by securing more efficient selling services. Country buyers were sometimes highly inefficient in securing advantageous market connections, relying for their own remuneration more on taking a sufficient margin below whatever terminal price they secured than in working zealously and intelligently to get the best price obtainable in any accessible market. Co-operatives hoped to build up a system of alert and skilful management which would get the farmer a price according to grade, and later to make such shifts in shipping

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train trip often resulted in death. Shipping associations opposed the filling of hogs and cattle both because of this danger and because any gain to the one who followed the practice would result in penalizing a fellow member. The better-managed co-operative associations have sought to break up these practices by admonishing their members and by weighing separately the stock of persistent offenders so that they must stand their own shrink.

arrangements, according to the season or strength of particular markets, as would yield the "high dollar." The choice of the best sales agency also entered into the plan and embraced, as we shall see later, a program of selling through their own co-operative agencies at the terminal. Particularly in this larger aspect the aims of efficient selling included the idea of gaining strength in the market as a result of collective bargaining. To this phase of the problem we shall give detailed attention in later chapters.

Shipping associations sought also to improve the quality of selling service by eliminating unfairness between individuals. The shipping associations proposed to get for every farmer "just what his stock was worth at the terminal, less actual expense." This was to be done by a system of marking each animal so that it could be sold for his account in the terminal market. There it was thought prices reflected competitive conditions accurately; and such matters as grading, docking, and weighing were carefully supervised.

Not only did this procedure of the co-operatives[11] contribute to satisfaction on the part of the producer and appeal to his sense of fairness, but it exemplified also the general co-operative doctrine that reflecting back to the producer whatever premiums are paid for superior quality will tend to stimulate the use of the best production methods, whereas the penalty of low price will tend to decrease the production of those products or grades which the market holds in low esteem. In connection with livestock shipping, this educative effect of the co-operative method has been particularly marked in the South and in other sections

[11] In practice it has not been found possible to carry out this method with the beautiful simplicity with which it is here set forth. See pp. 69-72 and Part III.

where production has been in the earlier stages of development and standardized production methods have made less progress.[12]

Finally, the co-operative livestock shipping movement to some extent set up as one of its aims a program of "orderly marketing" similar to that which had attained such wide vogue in the case of other commodities. In the main, however, any program of orderly marketing concerns itself with stabilizing the placing of stock in the principal markets and thus in turn bringing an equalizing effect between markets. Such an aim is hardly within the scope of even the most comprehensive system of local shipping associations, much less of scattered and unrelated locals whose activities are not clearly correlated through any overhead organization. Thus the discussion of this larger aim must be left to our chapters on overhead agencies and terminal selling.

[12] Co-operative shipping was encouraged in the South because it "introduces means of proper grading and standardization and does focus the attention upon the quality of the product. Where products are produced without co-operative effort there is no opportunity to reach back into the problems of production and no preparation for a better profit through better methods of marketing." Knapp, Bradford, "Marketing and Purchasing Demonstrations in the South," U. S. Department of Agriculture *Yearbook*, 1919, p. 209.

The California hog auctions, which are described in a later chapter, encouraged better production methods in like manner. "A few lessons like this made a difference in the class of hogs. Poor scrawny hogs were placed in a grade by themselves or docked. Piggy sows, stags, soft hogs were docked heavily. The good stuff was grouped by itself and got a good price. Gradually the farmers began working harder to get all their hogs in the top grade." Murphy, D. R., "A New Method of Hog Marketing," *Wallaces' Farmer*, Sept. 17, 1920.

# CHAPTER IV

## STRUCTURE AND METHODS OF OPERATION

The business of shipping livestock to market, as it was carried on in the days when co-operative shipping sprang up, involved but few operations and not many commercial complexities. As a result the early shipping association adopted a form of organization which was simple in the extreme, although gradually evolving toward a more complex form as the outgrowth of accumulated experience and the expansion of trucking and direct marketing. Discussion of these later complications will be deferred until the simpler early conditions have been set forth.

### I. TYPES OF ASSOCIATIONS

A not inconsiderable amount of joint shipping has been done, intermittently at least, by groups of farmers with no recognizable organization whatsoever. Among more formal shipping undertakings two general types of organization may be distinguished.

*Unincorporated associations.* Owing to the simplicity of the business arrangements involved, and in part also (particularly in the earlier days) to the absence of suitable co-operative laws, a large number of shipping associations have existed merely as unincorporated bodies, often referred to in popular parlance as "voluntary" associations. As late as 1916, when the University of Minnesota published the first bulletin on co-operative livestock shipping associations, the situation was described as follows:

> Associations are usually organized without incorporation. There is usually little need of stock, as virtually

no capital is required. A few leaders naturally take the initiative in arousing interest in this subject in the community. An informal meeting is called to decide definitely whether to form an association . . . Should it be formally decided to organize, at least two committees should be appointed—a membership committee to solicit members, and an organization committee . . . If, as is customary, the association does not incorporate, it should adopt a constitution, which takes the place of articles of incorporation . . . By-laws should be adopted containing the less important regulations as to the conduct of business.[1]

The first bulletin of the United States Department of Agriculture which dealt with co-operative shipping appeared later the same year and treated the question of organization in a somewhat similar vein, saying:

The simple form of organization that suffices for such associations is one of their leading features . . . To organize it is necessary only that the farmers of a community meet together, adopt a simple constitution and by-laws, and elect officers and a board of directors, who in turn appoint a manager.[2]

The by-laws ordinarily specified, at least in general terms, the manner in which stock was to be handled and settled for. In practice, however, such matters were quite freely delegated to the manager. Directors met infrequently, if at all, and membership meetings were largely unattended or even allowed to lapse altogether. In a large number of cases "the manager became the association,"[3] and conducted its whole

[1] Durand, E. Dana, "Co-operative Livestock Shipping Associations in Minnesota," Minnesota Agricultural Experiment Station *Bulletin* No. 156, pp. 16-17.

[2] Doty, S. W., and Hall, L. D., "Co-operative Livestock Shipping Associations," U. S. Department of Agriculture *Farmers' Bulletin* No. 718, p. 3.

[3] In Chap. II we have seen a somewhat similar situation rather prevalent in the South in which group shipping is carried on without any pretense of co-operative organization. There the county agricultural agent functions in lieu of an association.

operation at his own discretion, subject only to such suggestions or complaints as might be vouchsafed by the nominal officers or members or patrons of the association.

Unincorporated associations had a specific membership whose participation in the association was usually evidenced by the payment of a membership fee of $1.00 and frequently by signing the constitution and by-laws of the organization. In practice, however, the privileges and responsibilities of membership were not very definitely observed, as it was common practice to ship for any member of the community who desired to participate in a given co-operative shipment. In some cases the dollar or other membership fee was deducted from the returns on such an outsider's initial shipment and he became *ipso facto* a member of the association. In such event the new shipper would have to abide by the practice of the association as to the manner in which his shipment was handled and returns made. In the general looseness of these arrangements it frequently happened that he was not required to sign the by-laws of the association even though the original membership had done so.

Another handling of the membership relation was to permit non-members to ship, but at a higher rate, such as would presumably induce them to join the association. Generally, however, membership was regarded as a rather nominal matter after a nucleus had been formed, the most important concern being to secure a good volume of stock for shipment in order to make full carloads, reduce shipping costs, and increase returns to the manager.

The unincorporated association, though almost universal in the early days and still extensively used, has serious shortcomings. As a matter of law, it constitutes a co-partnership and subjects each member

to individual liability in the case of losses by or claims against the association. Likewise, it creates no legal entity in whose name property may be held and suits instituted or defended. This is particularly serious in the case of claims for loss against the railroads or commission firms and others at the terminal markets.

*Incorporated associations.* As the co-operative shipping movement has expanded during the last decade, and as co-operative laws have been enacted by more states and been better fitted to the needs of co-operative enterprises, new associations have been much more commonly set up in the form of corporate bodies and old ones have been reorganized in the corporate form. Besides escaping the disadvantages referred to in our discussion of unincorporated shipping groups, incorporation has very considerable value as looked at from the point of view of possible further organization of co-operative effort in the field of livestock marketing. If local associations and terminal selling agencies are to be built into any comprehensive marketing system destined to improve the market position of growers as a whole, it must be on the basis not of separate, casual, and unincorporated groups, but upon the firm foundation of a sound legal and commercial structure. Permanence, responsibility, and a competent managerial set-up in the locals are prerequisite to the erection of any important superstructure. In recent years considerable educational pressure in this direction has been exerted by Extension agencies and overhead livestock marketing organizations. The results have been most marked in the important livestock shipping territory of the North Central states but, even here, a large part of the associations still retain the unincorporated form. The state of Iowa notes a considerable increase in the number of incorporations in recent years, bringing the

ratio of incorporated associations in 1925 up to more than two-thirds of the total.[4] A study of 262 associations in Minnesota the same year showed barely two-fifths to be incorporated bodies.[5]

Ordinarily the livestock shipping association uses the stockyards pens and feeding and watering facilities furnished by the railroad and has little or no necessity of furnishing equipment of its own. Hence the demand for raising capital is almost negligible, and this branch of co-operative enterprise lends itself admirably to the non-stock form. As a matter of fact many livestock shipping associations were organized prior to the passing of non-stock co-operative laws in their respective states. In such cases it was customary for them to take advantage of co-operative laws of the Rochdale type, which provide for the issuing of capital stock to members. It was common for such organizations to have each member pay in $1.00, just as in the case of the membership fee referred to in our earlier discussion of unincorporated associations, the incorporating officials interpreting this payment as the purchase of one share of stock, thus bringing such associations under the stock-issuing co-operative laws of the state.

Some co-operative associations have found it necessary, or thought it desirable, to purchase or lease ground, construct pens and yards of their own, possibly erect a feed house or manager's office, or install a well and watering facilities. The Iowa study above referred to showed 118 out of 623 associations as owning property in some amount. Doubtless in many cases this involved a very small sum, and had been deducted

[4] FitzGerald, D. A., "Local Co-operative Livestock Marketing Associations in Iowa since 1920," Iowa Agricultural Experiment Station *Bulletin* No. 254, p. 15.

[5] Derrick, B. B., "History and Development of Co-operative Livestock Shipping Associations in Minnesota," *American Co-operation,* 1926, Vol. I, pp. 161-62.

from membership fees or shipping charges. Only occasionally has capital stock been a real factor in the set-up of livestock shipping associations.

*Affiliated or subsidiary associations.* One further type of shipping association organization may be briefly mentioned before we leave this topic. It is the association which exists as an adjunct to some other co-operative activity, most frequently a farmers' elevator, but occasionally a co-operative store or a creamery.[6]

Such affiliated or side-line associations have been of several more or less clearly discernible types. Occasionally a farmers' elevator or other co-operative association has set up a livestock shipping department distinct from other parts of the business and handled by a manager on the same basis as specialized co-operative associations operate. In other cases the farmers' elevator, either through its regular manager or through some specially designated livestock manager, has bought livestock from shippers outright in the same manner that most farmers' elevators purchase grain. Finally, a somewhat less intimate relationship has sometimes been established between a livestock shipping association and an already existing association which may extend to the shipping association the benefits of its office quarters, telephone connections, and possibly some help in matters of bookkeeping, the ordering of cars, or other business details. Such an arrangement has frequently proved very helpful to an association with a small volume of shipments which was hardly in a position to install office facilities of its own, or which was under the management of a man

[6] Sometimes we see practically the opposite of this situation, namely, an association which has been set up primarily for the shipping of livestock which subsequently adds the handling of side lines such as coal, feed, or lumber to its original business of livestock shipping.

who might be entirely competent in the physical handling of livestock but ill-prepared to tend to the duties of its business routine. In this situation the elevator manager, often without any charge, may take the responsibility for handling weigh tickets, checking the returns for stock when they come in, and issuing checks to the members.

*County associations.* From another point of view livestock shipping associations may be classified as (1) independent locals, (2) advisory county associations, and (3) operative county associations.

What we have been saying has applied primarily to the independent local, and the community character of such an organization is obvious. Sometimes, however, by process either of expansion or of absorption, a single organization has come to a place where it centralizes under one head all the shipping work of an area more or less exactly coinciding with county lines.[7] In such an event there is ordinarily one board of directors, so chosen as to give adequate representation to the various local shipping points, and one manager who directs the shipping operations and business transactions of the whole territory, though commonly assisted at local shipping points by sub-managers who do all or part of the work of actually assembling and dispatching stock to market.[8]

[7] In occasional instances, particularly where the volume of shipments is not very large, a successful and well-managed association in one county, or parts of counties, may so extend its operations as to embrace several adjacent counties.

[8] In some cases also the county association has an assistant manager who is not attached to any particular locality but works out from the central office, giving his attention to whatever community seems most to need it or to promise best results. This makes possible the development of co-operative shipping from areas where local interest is not keen or the volume of business large enough to attract a local sub-manager of the necessary quality. It also keeps a man constantly in training acting as an understudy in all phases of the association's work

Intermediate between these two is the advisory county organization. Here the local manager is responsible for the actual conduct of shipping operations and the disbursing of proceeds among the members, but the local group participates in a county association for purposes of mutual assistance, the improvement of business methods, stronger representation in the markets, joint action in the handling of railroad claims, or other matters of common interest. The advisory association is not ordinarily incorporated. It is simply an informal grouping for special purposes and is largely limited to the state of Iowa. The distinctive features of county operative associations, such as are found chiefly in Ohio, Illinois, and Indiana, will be discussed in Chapters V and VI.

Shipping associations, whether incorporated or unincorporated, generally follow ordinary arrangements as to directors, officers, and management. Certain aspects of membership relations can be brought out most conveniently after we have noted the salient features of operative practice.

## II. SIMPLICITY OF EARLY OPERATION

The business which the local co-operative shipping association took over from the private buyer is essentially the assembling of carlots [9] and consigning them to market. This work can be effected by (1) the

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and competent to step into the manager's place. Several county associations in Ohio are now operating on this plan and others are contemplating adopting it.

[9] Our discussion of the shipping association habitually speaks in terms of shipping stock by rail. This has been the prevailing method of transportation from local point to terminal until the advent of recent changes as a consequence of the increase in motor vehicles and hard roads. The effect of this trucking on shipping association operation has been considerable, and will be dealt with in Part III.

advance listing of market livestock by members, (2) the provision of a car by the manager as frequently as a full load of stock is available, (3) the delivery of previously listed stock by members to the shipping point upon notice from the manager as to time of shipment, (4) the loading and billing out of the car, and (5) the distribution of proceeds.

Practically all of the arrangements for a shipment can be made over the community telephone, and the amount of time which the manager is required to devote to the business is so small that in many instances it has been handled as a side line by a farmers' elevator manager, a retired farmer living at the shipping point, or even a member of the association who is still actively engaged in farming.[10] In some cases, however, it proves difficult to secure an amount of stock just sufficient to make full carloads and thus avoid the high freight cost resulting from underloading or the risk of injury to stock as a result of overloading. When such a shortage develops it may require considerable effort to ascertain where supplies may be found which have not been listed and to persuade certain members to bring in their stock at times which they had not themselves elected, or to secure additional stock from persons outside the association.[11] At times, also, the securing of cars of the size or character required on the shipping days when producers wish to

[10] Such part-time management has largely disappeared in Ohio and other areas where the county plan of organization has come into use.

[11] Occasionally the listing of an amount of stock which would not make even carloads might be met by the manager through the exercise of a little diplomacy to secure the withdrawal of certain listings or the deferring of deliveries on the part of several shippers. The great increase in the use of the motor truck today has solved this particular problem for many managers by giving their operations greater flexibility through the use of smaller units of shipment.

move their stock to market presents difficulties to the manager. Finally, the "loading out" of a car of stock in such condition as to reduce losses to the minimum and secure the most favorable market results is not a simple matter; it requires close and skilful attention.

In the discussion of the aims of co-operative marketing in a previous chapter we noted the responsibility of the manager to see that stock was carefully handled prior to loading at the farm, on its way to market, and at the local yards. Besides this, however, it is a part of the co-operative procedure that the manager shall so prepare his load for market that each individual shipper shall receive an equitable portion of the total proceeds. The distinctive practice which this has involved is the placing of ownership marks on all stock [12] and its sale at the terminal according to these marks. This is ordinarily done at the local stockyards by the manager, the method being to leave the largest individual contribution to the load unmarked but to give each additional owner's stock a distinctive mark, ordinarily a Roman numeral. This number is clipped in the hair of cattle or hogs or painted on the wool of sheep. Returns are made by the terminal commission company according to these ownership marks.

The commission companies at the terminal market, in remitting the proceeds of sale,[13] account not merely for the total but indicate the distribution according to the individual ownerships in the car as shown on the manager's invoice. The local manager has only to

[12] Except in those cases where the local manager takes upon himself the responsibility of grading the stock and making distribution of the proceeds accordingly. This practice of "home pro-rating" is strongly advocated when the volume of business can be brought up to a point where it will attract a well-qualified manager. See pp. 71 and 91.

[13] That is, the price received from the packer or other terminal buyer less stockyards charges, selling commission, and freight.

deposit the commission company's check in the account of the association and draw checks for the individual shippers in accordance with the several amounts credited to them on the commission firm's "account sales" less a deduction covering local expense and contribution to the insurance fund.[14]

In allocating the local expense it has commonly been the practice to charge each member direct with any special cost involved in handling his own stock, such as penning off a few individual animals of a different species in a mixed carlot, and to assess a manager's commission uniformly upon all owners for each particular species of stock handled. The cost of feed, ice, bedding, or other supplies has commonly been charged to each carlot as actually used but made uniform per hundredweight for all stock shipped in a given car. Occasionally, in the interest of simplicity, certain of these items, particularly feed, have been reduced to a fixed charge per head or per hundredweight.[15]

Though thoroughly co-operative in the sense that each member is rendered "service at cost," co-operative livestock shipping associations have refrained from adopting the complete form of pool relationship so widely advocated in recent years and extensively adopted in other branches of the co-operative movement. They have strongly adhered to the original

[14] As the burden of such accounting grew with the increased volume of co-operative shipments, many commission firms made a special charge for this service, and this practice was subsequently recognized and standardized under the Packers and Stockyards Administration. Most local packers have found it impracticable to buy stock according to individual marks. To some extent this has shut out co-operative shipments, but in some cases the manager has met the problem by himself making the distribution according to ownership. Compare pp. 70-71.

[15] "A large percentage of shipping associations in the Northwest use a flat rate for each species." J. S. Montgomery, general manager, the Central Co-operative Association, South St. Paul.

objective of "giving each man just what his stock brings in the terminal market less actual cost of getting it there."

Experience has shown that any practicable method of handling the accounting work necessitates more or less pooling of certain expense items such as terminal charges and some shipping costs.[16] Furthermore, such losses as may occur in shipment as the result of the death or crippling of animals are quite generally handled on a pooling basis. That is, they are covered by a "protection fund," or insurance reserve, built up from a deduction uniform upon each species of stock shipped. The nature of this self-insurance arrangement is set forth in a model by-law proposed by the Bureau of Agricultural Economics of the United States Department of Agriculture as follows:

> There shall be deducted one-half of one per cent from the net returns received for the livestock in addition to the charges provided for in section 1 of this article [manager's commission] and the amount so deducted shall be placed in a protection fund to be used for the payment of losses that may occur through the death or injury of animals after delivery to the association . . . All livestock shall be inspected when received, and any injured or diseased animals shall be handled entirely at the owner's risk and no payment from the protection fund shall be made in the case of loss from death or injury of such animals.[17]

Thus the association acts as a separate entity in the carrying of the general run of transit risks. The member, however, retains his individual status as to any special shipping hazard resulting from the char-

[16] See also Minnesota Agricultural Experiment Station *Bulletin* No. 201, p. 46, and North Dakota Agricultural Experiment Station *Bulletin* No. 223, p. 20.

[17] U. S. Department of Agriculture *Farmers' Bulletin* No. 1502, p. 26.

acter or condition [18] of the stock which he contributes. Likewise, the association functions as a unit with reference to such price risks as are due to the choice of time of shipment and of the market to which, or the commission agencies through which, the stock shall be sold. The member, on the other hand, retains his individual status as to price differentials which are due to the grade [19] or condition of the stock which he puts into the joint shipment.

[18] Some associations exclude from the protection of the insurance fund not merely stock which is injured or diseased at the time of delivery to the association as specified in the by-law above, but also any stock which, in the judgment of the manager, has been overfed just prior to delivery as a means of increasing its weight.

[19] Except insofar as hogs of different quality are placed in the same grade for convenience of sale by the terminal commission company. Compare pp. 69-72.

## CHAPTER V

## LATER MODIFICATION OF SHIPPING ASSOCIATION PRACTICES

The simple form of co-operative shipping association which we have been discussing attained in large measure the co-operative aims set forth in Chapter IV. That is, it furnished a means by which the individual farmer's livestock, so marked as to preserve its identity, was sold directly in the terminal market; and the proceeds realized at this competitive point were returned to him less his actual share of the local handling, transportation, and terminal expense. Such a plan of operation is practically the antithesis of co-operative pooling, and retains a strong flavor of individualism. Whatever may be said about it from the standpoint of co-operative theory, it was not long in showing serious shortcomings when tested in practice.

### I. CHANGES TO MEET THE NEEDS OF THE TERMINAL MARKET

The principal terminal markets are called upon to receive and handle a large volume of a living product which is comparatively perishable in character and requires more attention and service in its movement through the market than almost any other agricultural commodity. The methods of taking this produce from the railway cars, handling it through the stockyards, and delivering it to the packer or shipper have been designed to secure maximum speed of movement without destroying the competitive character of the market. This must be retained if prices are to reflect

individual differences of grade and condition under a system of competitive bidding which approximates the method of an auction. To accomplish this end every effort has been made by stockyards agencies to yard and sell the carlot as a unit, or even in some markets to dispose of several carlots in a single transaction at a flat price or at a basic price with specified increments or deductions to cover grade differences which affect a small percentage of the total lot.

When co-operative shippers entered this market with loads representing mixed ownership running anywhere from five or six individuals to the carload up to fifteen, twenty, or even more in extreme cases, a burden was imposed on the existing livestock marketing machinery which it was unable to sustain. Stockyards companies built new pens or subdivided large ones and constructed additional alleys. Weighing gangs worked longer hours, and new scales were installed. Commission firms added more yard men to their forces in order that small bunches of stock might be sorted out for separate yarding, weighing, or sale. Office forces spent additional time in accounting for the proceeds of stock in accordance with the mixed ownership indicated on the manager's invoice. But, as the volume of co-operative shipment mounted during the years of rapid expansion following 1916, it was not physically possible to handle so many lots individually.

Nor was the separate handling of each farmer's animals at the market conducive to his own best interest. The excitement and heating of animals in the tedious process of sorting and re-sorting caused them to lose weight and condition. The added amount of weighing not only involved extra scale charges but frequently resulted in the recording of a less total weight for a carlot when so weighed, since the large scales in customary use register only at ten-pound

intervals, and even the smaller ones at intervals of five pounds. This so-called "break of the scales" has in actual tests been shown to penalize the shippers represented in a car of plural ownership. Furthermore, packer buyers or order buyers who wish to acquire a considerable volume of stock in the course of a morning's trading ordinarily wish to do this by purchasing in carload lots, or at least are unwilling to run about from pen to pen inspecting and bidding on small lots of stock which must then be separately weighed, docked, delivered, and paid for.

As a result of all these difficulties, commission firms, consulting not only their own convenience and economy of operation but also the financial interest of the shippers themselves, adapted their practice with reference to co-operative shipments so as to handle the stock in such ways as seemed to them most advantageous. The car having been sold as a unit or in two or three effectively sorted lots at a flat price per car or per lot, the yard men and the office force had the responsibility of figuring out an equitable distribution of total proceeds. The task of making up such an "account sales" was, as stated in the vernacular, "to mark them up and down." That is to say, the net proceeds were disbursed by crediting the flat price to the animals of average grade and figuring differentials above and below this to other grades, such differentials being adjusted as closely as possible in accordance with the quotations published by the market papers for the day of sale. Such a process obviously involved very close attention as well as additional work on the part of the yard force and considerable time in the office. As a result extra charges of from $2.00 to $6.00, according to the number of owners represented in the car, were made for this service.

A few terminal commission companies and the majority of packers who bought direct in the country flatly refused to recognize individual ownership or to handle stock according to marks. They might be willing to buy from the co-operatives but would make a single return for the car and let the association distribute the proceeds as it saw fit. This, together with the constant urging on the part of the commission companies that the shipping association handle such work at the country station rather than put it on their shoulders, created a demand for considerable change from the simple operating methods with which the local shipping movement started. It required that the manager, with such consultation on the part of members as he found it desirable to avail himself of, should indicate the grades and dockages of all animals as received and should, upon receipt of the proceeds from the terminal market or local packer, disburse them to the patrons in accordance with this grading, possibly adjusted to some extent by indications of price differentials which the concern to which they were consigning might show on its returns. This system of "home grading" thus modified the function of the local association not merely by increasing the burden of accounting and clerical work but also by putting on the management a real responsibility for the inspection and grading of the product as delivered by the members.[1] It naturally increased the manager's potential control over quality and paved the way toward possible sorting and standardization of the co-operative product

[1] This book is not concerned with the technical details of co-operative shipping operations. These are fully described by Frank Robotka in "Accounting Records and Business Methods for Livestock Shipping Associations," U. S. Department of Agriculture *Bulletin* No. 1150. This bulletin was issued in an earlier but identical form as "Accounting Records for Livestock Shipping Associations," Iowa Agricultural Experiment Station *Bulletin* No. 209.

similar to that which has been so highly perfected in some other branches of co-operative marketing. This development doubtless will have further significance in the future of co-operative livestock marketing.[2]

## II. NEED OF STRENGTHENING THE LOCAL ORGANIZATION

The forces which contributed to expanding the activities of the local association did not all come from the terminal market or all grow out of questions relating to the physical handling of stock or the distribution of proceeds. The first and simple conception of co-operative shipping as a response to the desires of producers themselves was hardly sufficient to build up a permanent and vigorously developing system of co-operative marketing. In practice it soon appeared that if the manager merely accepted listings from the members and "loaded out" such stock as they delivered, the association was on the average a rather weak competitor of the private buyer who aggressively exploited the surrounding territory in the effort to sustain and build up his business. As a result greater and greater emphasis was placed by the co-operative association upon having an active manager of pleasing personality who would retain and enlarge the volume of business originally brought to the association by its initial membership.

This might mean that the manager simply represented an aggressive and effective expression of the co-operative idea of shipping and that, without undue pressure on his part, the co-operative spirit of the community or the activities of outside fostering agencies toward stimulating and building up co-operative marketing would result in securing a satisfactory

[2] See discussion of further development along this line on pp. 209, 217, 333 and 335.

volume of business. In some cases, however, the situation was clearly that the members, though nominally embarked in a co-operative marketing enterprise, actually took a very passive attitude and did little or nothing to reach the goal of more economical and efficient marketing through the active participation of members in the group undertaking.[3] They might even sell to the private buyer at times when their stock was critically needed to complete a carlot, or perhaps habitually sell their best stock outside the association. To meet this situation the co-operative manager has frequently resorted to solicitation of shipments on as intensive a basis as the private buyer, thus losing one of the chief anticipated economies.

So long as the local manager is an active farmer busy with the interests of his own farm, a retired farmer who has accepted the position of manager chiefly because he has some leisure, or some other person at the shipping point who takes this duty on as a minor adjunct in connection with other business interests, the livestock shipping association has ordinarily not attained a very high level of vitality or growth. The principal departure from this rather unsatisfactory condition of local organization has been in the direction of securing a higher level of management by building up a volume of business large enough to afford adequate remuneration to a really competent man who makes it his only or at least his major source of income. At a shipping point handling a large volume of stock each year this may be done on a strictly local basis.

More often, however, and on the whole more successfully, it has been done by enlarging the zone of operations and attaching one or more subordinate stations to the headquarters shipping point. In some

[3] See p. 50.

cases, also, this has expanded to the point where something conforming nominally to political boundaries has given what has come to be called the "county" shipping association. Such a unit may pay a salary of several thousand dollars a year to a competent business manager, with stenographic and clerical assistants in the central office and sub-managers or loading bosses located at each of several subordinate points or perhaps traveling from one point to another where shipments are delivered. To some extent, also, the managerial work of the local association has been strengthened by the coming of overhead agencies on a state basis. Discussion of this development, however, will be deferred to a later chapter.

A second method in the effort to strengthen the local association has been to put the organization on a contract basis. The acceptance of the contract obligation by the member and its enforcement, if necessary, on the part of the association have resulted where conditions were suitable in giving the operations of the association greater economy, regularity, and general efficiency. The evolution of this feature of co-operative structure will be briefly traced.

In the early days of the modern co-operative shipping movement the determination of the producers to remedy local conditions resulted in giving the associations full support, and it was naively thought that farmers would continue loyally to support their own agencies. It appeared, however, that the strength of the local buyers was under-estimated [4] and the strength of the co-operative spirit in the patrons was over-estimated. All too often associations awoke to find many of their members being "picked off" by shrewd country buyers who paid premium prices with

[4] Including the fact that in certain cases they were "protected" buyers with an especially desirable outlet. See p. 43.

the objective of ruining the co-operative and regaining the field. When a similar situation had arisen in the struggle of the country elevators they had devised the "maintenance clause" as a means of keeping their associations intact through such periods of cut-throat competition.

The elevator maintenance clause was primarily designed for the purpose of carrying overhead charges due to the necessity of keeping a physical property intact for use by the members at any time when local buyers might lower prices below the level justified by terminal market quotations.[5] The situation of the livestock shipping association is not strictly analagous since, as pointed out above, it ordinarily has little or nothing in the way of physical plant. Likewise, the manager is customarily on a commission rather than a salary basis. On the other hand, its whole scheme of operation contemplates the shipping of full carload lots in order to secure the minimum freight charge. If certain members default in deliveries this results in distributing the cost of the car over a smaller volume of stock, thus penalizing those who are loyal to the association. To meet this difficulty, by-law provisions have sometimes been included making it incumbent upon members to offer all their stock to the association for shipment, and assessing a handling charge against members who fail to deliver stock listed for shipment. Model by-laws proposed by the Wisconsin Agricultural Experiment Station [6] set forth this type of relationship clearly.

> A member shall deem it his duty to dispose of his livestock through the association, and particularly in the event that he has listed his livestock with the manager for

[5] Nourse, E. G., *The Legal Status of Agricultural Co-operation,* pp. 173-83.
[6] *Bulletin* No. 381, p. 33.

shipment he shall not default in its delivery to the association.

Failure to deliver listed livestock for any reason except inclement weather, or release from the manager, shall cause the member to pay an amount to the association equal to the proportionate share of expenses which he would have paid had he shipped his livestock. In the event of non-payment of such charges, they shall be added to his pro-rated share of expenses of the next shipment in which he participates, or he shall not be allowed to ship again.

Obviously, human nature being what it is, the mere fact that a by-law of the association states that the "member shall deem it his duty to dispose of his livestock through the association" constitutes but meager assurance that members will consistently patronize their own organization and give it an adequate and dependable volume of business. Such a situation, however, is extremely important if costs are to be kept to a minimum and the effectiveness of the association as a marketing agency is to be maintained or increased. Livestock shipping groups therefore have been increasingly concerned in so strengthening their form of organization as to assure so far as possible the complete and continuous participation of those who constitute their nominal membership. To do this, they have turned to a device which has attained wide vogue in the evolution of the co-operative form of business arrangement during recent years, namely, the membership agreement or contract. Where this is adopted as part of the co-operative form of organization the member binds himself by a special formal document to deal exclusively through his association and to pay agreed sums as liquidated damages for any failure to live up to the contractual obligations thus assumed as the basis of his participation in the joint enterprise.

The membership agreement as applied to livestock shipping was developed first in the state of Iowa and

has been used most extensively in that state since its initial development in 1920. Other states, however, have embraced the idea to a limited extent.[7] The form of the Iowa contract was the result of a conference of all livestock shipping interests in the state,[8] held under the auspices of the state Farm Bureau Federation in the winter of 1920-21. It thus embodies the results of extensive co-operative livestock shipping experience in that state, and seems to have met very adequately the purposes for which it was intended.[9] Its provisions are as follows:

(1) The association shall engage a suitable manager for the handling of livestock shipments, and provide cars for shipment, secure a market outlet and attend to the

[7] See also the contract feature of the Federal Farm Board plan, chart, p. 320.

[8] See footnote 7, p. 89.

[9] This contract was drawn prior to the passage of the Iowa law of 1921 which, in common with the recent co-operative laws of most states, specifically authorizes membership contracts and strong enforcement devices. The Iowa contract was therefore drawn with great care to set forth the bilateral character of the arrangement and to state the nature of the payment to be made by defaulting members in such terms that it would be upheld by courts under ordinary principles of contract law in the absence of any specific authorization for such a structure in co-operative statutes. It may be remembered that it was because of a payment of 5 cents per hundredweight on stock shipped through a packer buyer that the famous case of *Reeves* vs. *Decorah Farmers' Co-operative Society* (160 Ia. 194, 140 N. W. 844 [1913]) was decided adversely to the association, thus for many years prejudicing the case of the membership agreement not only in Iowa but in other states which cited this as a precedent.

While the Iowa livestock association contract was never tested under the statutes obtaining at the time of its introduction, it did become the basis of the first test of co-operative contracts under the new Iowa co-operative law of 1921. In *Clear Lake Co-operative Livestock Shippers' Association* vs. *Weir* (200 Ia. 1293, 206 N. W. 297 [1925]) this type of binding membership relation was upheld by the Supreme Court of the state.

shipping of stock, the collection of claims, and the disbursement of receipts.

(2) The member shall list with and deliver to the association for the purpose of selling all livestock produced or acquired by him, except (a) livestock butchered on the farm or sold to local butchers or other local private customers, (b) stocker or feeder animals sold locally, (c) purebred or other animals sold for breeding purposes.

(3) The member shall notify the manager of the number, kind, and approximate weight of animals which he has to ship from time to time. Upon notification by the manager of the date upon which shipment will be made, the member shall deliver his stock as listed to the designated shipping station. No unhealthy stock shall be received and such animals as show evidence of being overheated, overfed, or otherwise in bad condition will be received only at the risk of the member. Animals in excess of the number or weight listed may be received or rejected at the manager's discretion.

Should the member fail to deliver stock as listed and when notified, and as a result thereof a car or cars are shipped to market with less than the minimum weight charged, in accordance with the railroad's tariffs, the member shall pay the freight charges upon such unused capacity.

(4) If the manager is unable to make up a load of stock for shipment the member may, after ten (10) days from date of listing, withdraw his stock by notifying the manager in writing and dispose of it other than through the association.

(5) The member shall pay the association his pro rata share of the expense incurred in making shipments and such other assessments, charges, and damages as are or may be hereafter provided in the by-laws, which said by-laws are by this reference made a part of this agreement.

(6) It is further expressly agreed, in consideration of the undertakings of the association and other similar agreements entered into by members thereof and in view of the difficulty of ascertainment of damages caused by breach of this agreement that in the event of the member failing to list and deliver his stock as provided herein, he shall pay to the association such sum or sums as may be

provided by the by-laws for each hundredweight of livestock which he fails to list and deliver which shall be considered as liquidated damages, and the manager is hereby authorized to deduct such damages from any moneys then or thereafter in his hands belonging to the member.

(7) Either party may terminate this contract by giving written notice to the other party not more than thirty nor less than five days prior to December 31st of any year during which it runs.

In summary, then, we may say that those features which make up the picture of the typical co-operative livestock shipping association include (1) an incorporated body, (2) disposal of individual lots of stock on a joint basis, (3) no pooling of prices between different shipments, but quite general pooling of certain items of marketing expense and of ordinary handling losses. A fourth feature, the membership agreement, seems to the writers to be an integral part of a fully worked out structure.[10] It has, however, not been taken up with any great enthusiasm outside of a few somewhat limited regions. Under the new Federal Farm Board plan a contractual relation between all local, regional, and terminal agencies is required; and it may be that this will eventually lead to putting individual membership regularly on a contract basis.

## III. THE SHIPPING ASSOCIATION AND MARKET DISTRIBUTION

In general we have differentiated between co-operative selling, which is the topic of Part II of this book, and co-operative shipping, which is the topic of Part I.

[10] One other aspect of membership relations should be noted. There has been a tendency in some places to tie up commodity marketing agencies with general farm organizations by requiring membership in the latter as a condition to participation in the former. The present status of this issue will come up for further attention when we discuss developments under the Federal Farm Board. See pp. 359-61.

Nevertheless a certain amount of actual selling has been done by local shipping association managers; and in this connection, and even in such shipping as they do on a consignment basis, they play an important marketing rôle which we shall designate as "market distribution."

If co-operative shipping is to achieve a large measure of commercial success, it is obviously important that associations be so operated as to put the product of members on that market which is most suitable for the given grade or grades of stock at a particular time. This demands that the association shall have a manager who is capable of making intelligent comparative study of all his possible outlets and of shrewdly selecting those which will yield the highest net return. To do this he must know the amount of freight charges, average losses and shrinkages, and the commission and other selling charges which must be deducted from gross price at various markets. From two to a dozen outlets are available to the large majority of shipping associations in the important livestock producing sections. These embrace large terminals, small terminals, local packing plants, and concentration stations. The manager who has utilized all these possible outlets to the maximum advantage of his patrons has sometimes consigned to the terminal market where actual selling would be done by either a co-operative or a private commission agency. At other times he has found it relatively more profitable to ship to non-stockyards markets in which agreement as to price, terms of sale, and conditions of handling the product have been entirely in his own hands, dealing directly with the buyer at the packing plant or re-load station.

Under the highly decentralized conditions which have obtained in the livestock shipping industry in the past,

this has forced an important and difficult function of market distribution and even, at times, actual sale into the hands of a class of local managers who in the nature of the case could not be expected to become highly proficient in its performance. In Iowa the attack on the problem has been largely in terms of more adequate training of the managers. In neighboring states, particularly Illinois and Ohio, there has been considerable substitution of county managers who are given full charge of market distribution and whatever direct selling is done. In the latter state the movement went still further toward taking this function out of the hands of local managers and concentrating it in state or regional offices.

It appears that plans now evolving under Farm Board auspices are likely to carry this line of development yet further. If so, the functions of the co-operative shipping association will, in such part of the livestock region as affiliates with Farm Board enterprises, be limited to the assembling and dispatching of livestock and attention to local membership relations, with market distribution and actual sale delegated to overhead marketing agencies. Apparently the very desire for a larger measure of local autonomy has been one influence causing certain livestock producing territories to hold aloof from the Farm Board plan. Where local control of distribution is retained in preference to the county or regional system, these local independent bodies must face the task of equalling whatever degree of efficiency in market distribution may be developed by the more centralized system. Unless they do this they can hardly hope to survive. The issues involved in this problem will receive detailed discussion as we proceed.

## CHAPTER VI

### OVERHEAD ORGANIZATION

We have already had occasion at several points in our discussion to refer to the fact that co-operative livestock shipping associations have not stood entirely alone as local independent agencies. In one degree or another in various areas overhead organizations have developed, commonly on a state-wide basis. The character of such overhead associations has differed widely from place to place, and they have in most instances shown considerable alteration from their earlier to their later forms as added experience, natural growth, or changing conditions have caused them to evolve with the progress of the co-operative livestock shipping movement.

The development of a service organization for local livestock shipping associations has proceeded along the same general lines as that of state farmers' elevator associations, and in greater or less degree in direct imitation of them. The services which had been performed by the state elevator associations were chiefly in the way of auditing, the standardization of bookkeeping methods, the collection of railway claims, the improvement of railway services and the adjustment of rates, the securing of favorable legislation, the provision of insurance on a group basis, and the maintenance of an employment exchange for managers. State federations of livestock shipping associations have not concerned themselves so aggressively with the work of supplying managers,[1] nor to any great extent

[1] In Ohio, where the county association has taken on much of the character of a branch of the state organization, the latter has been more definitely concerned in locating managers accept-

with the furnishing of group insurance. In the fields of accounting service, legislative activity, and the handling of transportation matters, however, they have done for livestock shipping associations practically the same work as the state farmers' elevator associations performed for local farmers' elevators. In addition, they have been more active in attacking the problem of desirable relations with local processors and the terminal markets. In Michigan, Ohio, and Minnesota the latter effort has run in the direction of promoting agencies for the actual sale of the product. In Iowa the emphasis has been on standard accounting methods as a basis for careful market analysis,[2] this to the end that the most effective use be made of existing selling agencies. Of late they have been encouraging efforts of local associations to concentrate their selling through district groups.[3]

## I. THE MINNESOTA STATE FEDERATION

Although general farm organizations such as the Equity and the Farmers' Union did promotional work among shipping associations and occasionally played a mildly supervisory rôle in connection with the subsequent operation of these associations, the first overhead organization which directed its attention specifically to service work for local livestock co-operatives was established in 1915 in Minnesota.[4] This association

able to themselves. In Iowa also something has been done by the state association in the direction of placing managers.

[2] See p. 189.

[3] See pp. 193-95.

[4] The Corn Belt Meat Producers' Association, established in Iowa in 1904, was set up to care for the interests of individual shippers, particularly the carlot steer feeders of that and adjoining states. The Corn Belt Meat Producers, with H. C. Wallace as first secretary and for years the leading figure, antedated the co-operative livestock shipping movement, and directed its attention chiefly toward the adjustment of freight rates and

was called the Minnesota Central Co-operative Livestock Shipping Association, and it was conceived and fashioned jointly by persons active in the development of the local shipping associations and several Extension workers from the state agricultural college. The participation of the latter calls attention to the active part which agricultural college, Experiment Station, and Extension staffs have played in the educational aspects of the co-operative livestock shipping movement.

The Minnesota Central Co-operative Livestock Shipping Association was organized as a federation of locals. Among its purposes was the encouragement of co-operative shipping and the assistance of local groups in perfecting their organization and carrying on their work. It contemplated also the encouragement of state and national legislation designed to strengthen the co-operative movement and to improve the conditions under which livestock was handled by the railroads and in the terminal markets. It was an informal type of organization, with no real authority over the member associations, but it served a useful end in bringing together the leaders who were actively sponsoring local shipping associations. Promotional work was more or less incidental to its activities as a service organization. Immediately after its formation, the Minnesota Central Co-operative Livestock Shipping Association began to act as the representative of its member locals in securing more adequate settlement of claims against the railway for damage or loss in transit. It also brought pressure to bear on the railroads to obtain better stockyards facilities at local points and the adjustment of train schedules so as to

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the improvement of railroad service. The abortive attempt at terminal selling which was made by this association is discussed on pp. 105-6.

shorten the time on the road or secure more favorable time for loading at country stations or for arrival at the terminal market.

On the legislative side it worked aggressively for the passage of a bill designed to bring the terminal stockyards companies under the supervision of the Railroad and Warehouse Commission, as well as other measures governing feeding at the terminal market, promptness of unloading, freight rates on mixed cars, and the installation of small scales for the weighing of individual animals or small lots. On the organizational side it gave assistance to local groups desiring to organize or to others who had already been in operation but required legal or other advice in reorganizing.

The local shipping associations of Minnesota are to a very high degree tributary to the South St. Paul market, and it was therefore not strange that they were actively interested in conditions of sale at that market. Six years of operation as a promotional and service organization built up a considerable sense of group interest and a sufficient volume of business so that in 1921 they were ready to launch their own selling agency. This development will be discussed in detail at a later point in our narrative.

## II. THE MOVEMENT TOWARD NATIONAL OVERHEAD ORGANIZATION

We have noted the great acceleration of shipping association activity from 1916 forward. With this boom spirit in the air, and with the example of comprehensive commodity marketing enterprises in other branches of agriculture, it was not strange that near the end of 1919 a movement should have been launched for an inclusive federation of all co-operative livestock shipping interests. Toward this end a conference of all such agencies from the Mississippi Valley states

was called in Chicago in December, 1919[5] by persons actively interested in the management of the American Co-operative Journal—the house organ of the farmers' elevators. The spokesmen of this conference proposed the formation of state federations of shippers and a national federation of these state associations broadly similar in organization to the state and national farmer grain dealer associations.

Those in attendance at this organization meeting perceived that much spade work would have to be done in their respective districts before any such scheme could be brought to actual realization. They therefore set up a national organization on paper,[6] but recommended the deferring of active operation until it should be seen what could be done in their several states.

[5] The attendance was about 300. More than 200 shipping associations had representatives, of whom the largest number were from Iowa, Illinois, Michigan, and Indiana. For the official list of delegates see *Report* of the Organization Meeting of the National Federation of Co-operative Livestock Shippers, Dec. 3-4, 1919.

[6] The proposed by-laws stated the purposes of the association as follows:

"The objects of this Federation shall be to encourage better and more economical methods in the production and distribution of livestock and livestock products; to promote co-operative education; to encourage the organization of co-operative livestock marketing organizations; to develop uniformity in the plan of organization and method of operation of local livestock shipping associations; to aid such organizations in problems of general interest in transportation, handling, and marketing . . ."

A by-law which shows the general character of federated organization which was proposed reads as follows:

"Each local association, upon becoming a member of this Federation, shall pay to this Federation as initial membership fee the sum of $5.00 and thereafter the sum of $1.00 for every car of livestock shipped by it. In states having state associations affiliated with this Federation, one-half of the per car charge shall be turned over by the state association to the National Federation."

This conference never re-convened to form the national body, but gave way during the next few months to another industry-wide proposal launched under the auspices of the American Farm Bureau Federation. It will be fully discussed in Chapter VIII. At the present point, however, it is interesting to note some comments in connection with the convention of December, 1919 as reflecting the trend of thought at the moment. Knute Espe, the president-elect, said:

> I should like to see the national federation go through, working toward a co-operative commission firm in Chicago or some other terminal market. I am firmly convinced that the majority of us, if not all of us, are for this thing.

The secretary of the Iowa Farm Bureau, writing to the county agents concerning the organization meeting to be held in Chicago, December 3-4, said:

> The Iowa Farm Bureau Federation believes this national organization a wise movement on the part of the livestock shippers in order to standardize their marketing systems, and we have hopes that it will lead toward a stabilization of market prices. I urge upon you to get as many of the managers of your shipping associations as possible to attend this meeting.

*Farm and Home* asked:

> Our co-operation having been good so far, why not put it on a national basis? Let all the associations federate in one national; then shipments can be made and recorded so that the market shall be fairly supplied but never overstocked. In this way producers may govern prices instead of being forced to take whatever is quoted. If the packers at Kansas City, Omaha, or Chicago won't pay a fair price, we will ship to other markets and set up our own packing plants.

*Breeders' Gazette* believed that a national organization of co-operative livestock shipping associations

> should, if perfected, wield a potent influence in stabilizing the markets . . . Stable markets will be impossible so long

as a bargain counter groans under its weight of offerings at the stockyards one week, and killers are unable to satisfy urgent requirements the next. This condition will continue until some intelligent method of regulating the primary movement has been devised. A national organization of shippers should be able to effect a solution of the problem if a solution is possible.

Following the suggestion of the Chicago meeting, beginnings toward state associations were made in six or eight North Central states. In several they "died a-borning," and in several others they were merged into or were superseded by co-operative livestock marketing departments in the Farm Bureau Federations of those states. This was particularly true in Ohio, Indiana, Illinois, and Michigan. Iowa was the only state in which a strong federation of local shipping associations was established on a basis independent of other farm organizations. We may therefore note the development of the Iowa shippers' federation and then proceed to a discussion of Farm Bureau activities in this field.

### III. THE IOWA CO-OPERATIVE LIVESTOCK SHIPPERS

The Iowa delegates to the Chicago convention of December, 1919 kept the matter of a state association under active discussion, and on February 27, 1920 called a meeting at the Iowa State College of Agriculture at Ames at which a state organization was formally launched. This took the form of a service federation of local shipping associations. Representatives of forty-four co-operative livestock shipping associations were present and perfected an organization on the pattern which had been drawn up at the Chicago meeting. The purpose clause in the articles of incorporation and the by-laws which were adopted were almost identical with those quoted in footnote

6, page 86. Membership in the state federation was available to any properly organized livestock shipping association on the payment of a fee of $10. Thereafter a payment of $1.00 per car, or practically one cent per hog, was to be made for each car of livestock shipped by the association.

The Iowa Co-operative Livestock Shippers got into operation promptly, its functioning being facilitated by the friendly but detached attitude of the Farm Bureau Federation and the active assistance of the Extension forces and the agricultural economics division of the state Experiment Station. With their co-operation uniform articles of incorporation and by-laws for local shipping associations were prepared, and a much better quality of advisory service was made available to farmers contemplating the formation of an association or to associations which desired to perfect an organization already begun. Likewise, in the fall of 1920 a standard form of membership contract was drawn up for adoption by such associations as found it desirable.[7]

It was the hope of the Iowa Co-operative Livestock Shippers that the uniform articles of incorporation, by-laws, and membership agreement would develop and expand the co-operative shipping associations into a movement strong enough "to furnish a solid foundation for a larger plan of co-operative marketing,"

[7] This work, which included also the standardization of other features, was carried out by a committee appointed under the auspices of the state Farm Bureau Federation but designed to represent all the livestock shipping interests of the state. A. E. Cotterill represented the Farmers' Union group, A. Sykes the Corn Belt Meat Producers, Martin E. Sar the farmers' elevator group which had been engaged in livestock shipping, C. W. Hunt the Farm Bureau Federation, Knute Espe the Iowa Co-operative Livestock Shippers. A representative of the state Agricultural Experiment Station, which had conducted research work in co-operative livestock marketing, sat with the committee in an advisory capacity.

which at that time was considered beyond the scope of the co-operative federation of shippers.

The activities of the Iowa shippers' federation during the first year of its organization were described in the first annual report of the secretary:

1. An investigation of shipping schedules provided by carriers had been instituted.
2. Arrangements had been made to secure better stockyards equipment and loading facilities at certain points.
3. Uniform record systems and annual reports had been given encouragement.
4. A claim department had been developed to handle freight claims of constituent associations.
5. Recognition had been secured for the shipments of members of the federation which gave them savings made on commissions through Farmers' Union co-operative commission firms at St. Joseph, Sioux City, and Omaha.
6. A method of sale to concentration points and packers who had until then discriminated against shipping associations in favor of local stock buyers had been opened up.

These activities, which were part of the program of the Iowa Co-operative Livestock Shippers to develop a well-organized shipping association movement, were carried on with considerable zeal during the year 1921. Particular attention may be given to the fifth and sixth items in the list. The former indicates the friendly attitude of the Farmers' Union terminal selling organizations in extending to other co-operative livestock shipping associations the same right of receiving patronage dividends which they accorded their own locals. The latter brings into the picture again a matter to which we have already referred in discussing the country buying system.

It was pointed out in Chapter III that many country buyers were exclusive representatives for local packers, and that the co-operatives were thus denied access to these advantageous nearby markets. It was also true that the buying stations, or "concentration points,"

operated in Iowa by distant packers had likewise not been open to co-operative shippers at the start. No manager of a local association could accomplish much in altering this situation single-handed; but when the state association approached these buying interests, armed with the figures collected by the Iowa Experiment Station showing the volume of shipments moving under co-operative control, a much more receptive attitude on the part of the packer buyers was brought about. In general they agreed to buy from the co-operative associations on as favorable terms as from anyone else, save that they would not cut off local buying representatives with whom they had been dealing over a long period. They demanded of the associations also that they follow the same practice as other shippers in the method of handling their stock. Chiefly this meant that the local packer or re-load station manager did not weigh and account for stock according to individual ownership marks. As we have seen in our discussion on page 71, however, this was a concession that the co-operatives could well afford to make. Indeed it was one that was being forced upon them in the terminal market as well.

In 1920 the question arose as to the advisability of affiliation with the Iowa Farm Bureau Federation. The Farm Bureau movement at that time was very strong in Iowa, and there were many who believed that tying the Iowa Co-operative Livestock Shippers to the Farm Bureau would result in strengthening both organizations. It would give to the Farm Bureau a better opportunity to support livestock marketing, while it would give to the Iowa federation of shippers the moral and financial support of the Farm Bureau during this formative period. A joint committee from both organizations, selected to consider the question of consolidation of efforts, submitted a report in favor

of such a "getting together" as would not merge the identity of the two organizations. The important provisions of this agreement [8] were as follows:

1. The Iowa Federation of Co-operative Livestock Shippers is to retain its identity as an organization.

2. All expense for conducting the activities of the organization—executive, incidental, or otherwise—is to be borne by the Iowa Federation of Co-operative Livestock Shippers, and the present method of financing is to be continued subject to such changes as the board of directors of the Iowa Federation of Co-operative Livestock Shippers may direct.

3. The management of this co-operative livestock marketing work is to be vested in a joint committee of the Livestock Shipping Federation and the Farm Bureau, consisting of six members, three selected by and from each organization respectively, which committee shall have final authority to determine the policies and activities along the line of co-operative livestock marketing.

4. The joint committee is to employ a secretary, who shall give his entire time to the problems of co-operative livestock marketing, and this secretary is to be under the direct supervision of the president and secretary of the Iowa Farm Bureau Federation.

5. The office of the Iowa Federation of Co-operative Livestock Shippers is to be established at the Farm Bureau Federation headquarters.

6. This committee is to invite all co-operative livestock shippers' associations in Iowa to affiliate with the Iowa Federation of Co-operative Livestock Shippers as soon as convenient.

At that time it was thought that the important feature of this action was that it would provide a way for commodity organizations to affiliate with the Farm Bureau on a self-supporting basis. Previously the general policy of the Farm Bureau had been to encourage the commodity organizations to operate with no direct connection with the Farm Bureau in spite of

[8] Adopted by the Farm Bureau on Nov. 12, 1920.

the open belief of some that the Farm Bureau should absorb the commodity organizations.[9]

The co-ordination of activities which resulted from the union of the Farm Bureau and the Iowa Co-operative Livestock Shippers enabled the latter to expand considerably. Beginning with February, 1921 the secretary gave his full time to the development of its program of work. At that time there were but 30 associations as members, while at the end of the year there were 130 associations representing 148 shipping points. The shippers' federation had participated in the organization of 23 new shipping associations, and had furnished articles of incorporation, by-laws, and producers' contracts for a large number of other associations. They had aided in the collection of claims from the railroads and the improvement of service and local shipping facilities. A large part of their attention had gone to the improvement of business practices, and particularly to the adoption of the standard accounting system which had been prepared by workers at Iowa State College and set up at numerous local associations as a part of the educational work of the Extension Division.

The gains accruing from the more active program of work which followed affiliation with the state Farm Bureau Federation were, however, in part offset by a loss in the solidarity of the co-operative shipping movement. A major objective of the Iowa Co-operative Livestock Shippers as a state-wide service

[9] "Our attitude toward co-operative associations in Iowa has been something like this: The Farm Bureaus of Iowa are not going into the co-operative business or in commercial lines directly. But we are looking the field over along all lines, encouraging special interests to organize for special ends." This was the expression of J. R. Howard of Iowa, president of the National Farm Bureau, at the organization meeting of the National Federation of Co-operative Livestock Shippers, Dec. 3-4, 1919.

organization had been to co-ordinate the work of all livestock shipping associations regardless of whether they had been formed under Farmers' Union, Farm Bureau, or Equity auspices. The non-Farm Bureau groups, however, were rather dissatisfied with the establishment of working relations between the shippers' federation and the state Farm Bureau, particularly as the impression gained ground that the shippers' organization was to be absorbed into the Farm Bureau at the time of the annual meeting in December, 1921. The Farmers' Union therefore called a conference in Des Moines on the same day as that scheduled for the shippers' federation meeting, its avowed purpose being to set up a separate federation of Farmers' Union [10] shipping associations.

At the meeting of the state federation of co-operative shippers a representative of the state Farm Bureau Federation served an ultimatum that the shippers' organization must merge itself fully into the Farm Bureau organization or sever its connection entirely.[11] After spirited debate they elected the latter course. The Farm Bureau responded by establishing a livestock marketing department of its own which, however, was short-lived. The shippers' federation, on the other hand, has shown a vigorous and healthy growth, although it did for a time experience considerable opposition not only from the state Farm Bureau but also from the Farmers' Union shipping federation which was launched at the time of the break between the Farm Bureau and the state livestock shippers'

[10] The Equity organization in Iowa had recently been merged into the state Farmer's Union.

[11] The grounds on which the issue was made concerned relations to the plan of organization which had just been announced by the Livestock Marketing Committee of Fifteen. We can therefore not fully explain the situation at this point, but it will be dealt with further in Chap. VIII.

federation. The precise position of the latter federation in the ultimate scheme of co-operative livestock organization is still problematical and involves deep-seated issues as between country shipping and terminal selling agencies. The various ramifications of this controversy will come up for discussion at numerous points as we proceed.

The only phase of the matter which we need to bring out here is that much of the emphasis laid by the state federation upon points of efficient business management centered around questions of market analysis designed to reveal the most profitable sales outlet for the particular association at a given time or for a certain class of stock. This has frequently led them to sell to concentration points, local packers, and the private yards of terminal packers, a course which the co-operative commission companies regard as disloyal to the co-operative marketing movement. The local associations have been concerned to place their stock in the market where demand was most keen and marketing charges as low as possible. They have at the same time been confronted with the problem of securing suitable sales representation in such of these markets as possessed neither a livestock exchange organization nor a terminal co-operative selling agency. The issue is one of how to secure really effective collective bargaining in a market system which is already considerably decentralized and apparently (see Chapter X) in the process of becoming still more so.[12]

[12] Iowa, with only one large public stockyards market within her borders but with the greatest variety of local markets within easy access, is confronted by a phase of this problem which is not to be found elsewhere. The distinctive course of development pursued by the state association has been a natural outgrowth of this situation.

## IV. OHIO AND OTHER STATES

In Missouri a state federation movement begun just after the Chicago convention of 1919 passed over into the livestock phase of the marketing work of the Missouri Farmers' Association. In Illinois, Indiana, and Michigan a somewhat similar development followed, the merging there, however, being into the state Farm Bureau organizations. The Illinois Agricultural Association and the Indiana Farm Bureau each maintains a livestock marketing department which assists in matters of organization, accounting, and market representation.[13] The Michigan Livestock Exchange operated along much the same lines during its initial period, but since 1921 has taken on the function of acting as a commission agency in the Detroit market for the shipping associations of the state. It is, however, affiliated as a department of the state Farm Bureau organization.

This type of development was carried still further in Ohio. There the Farm Bureau Federation was active in the formation of the Ohio Livestock Shippers' Association, organization of which was completed on March 9, 1920. In forming this association county agents and representatives of the state Bureau of Markets joined with the Ohio Farm Bureau Federation. It was resolved in the first organization meeting to ask for the support of all existing farmers' associations. It was proposed that a uniform system of accounts for all livestock shipping associations be adopted and that a study of the costs of marketing livestock be undertaken. In conformity with these resolutions the assistance of the Ohio Farm Bureau

[13] In Illinois a state livestock marketing association is just getting under way. It is organized on much the same lines as the Ohio state association. In Kentucky and Wisconsin also state organizations are being effected. See pp. 317-18.

Federation in organizing livestock shipping associations was solicited and its active support secured. "The Farm Bureau, the state Bureau of Markets, and the Ohio State University co-operated soon after this in a series of district meetings at eight Ohio points to discuss the problems of livestock marketing."[14] These discussions resulted in the adoption of the county type of shipping association as the proper form of organization to be encouraged as adaptable to conditions in Ohio.

When the first annual meeting of the Ohio Livestock Shippers' Association (now known as the Ohio Livestock Co-operative Association) was held on March 8, 1921 a plan of affiliation with the Ohio Farm Bureau was formulated. "It was recommended that each county association pay to the Ohio federation a fee of 50 cents per car [later changed to one cent per hundredweight] to be used partly for the expense of the state livestock association as such, but mainly to employ from the Farm Bureau such services as auditing, transportation, legislative, legal, and certain services in the field, all of which it was believed could be organized and furnished to the commodity groups by some central organization more efficiently and more economically than they could be furnished by the commodity groups themselves."[15] About this time a system of monthly reports summarizing and analyzing the business done by the respective county livestock companies was inaugurated, and shortly afterwards a uniform accounting system for all livestock companies in Ohio was adopted. As the result of this arrangement the Ohio Livestock Co-operative Association

[14] Wallace, B. A., "Co-operative Livestock Marketing in Ohio," Ohio Agricultural Experiment Station *Bulletin* No. 375, pp. 62-63. This bulletin gives a detailed story of the relationship of the shippers' federation with the Farm Bureau.

[15] *Ibid.*, p. 63.

became in fact the livestock marketing department of the Ohio Farm Bureau, although it kept its identity in name and separate government.

During the last few years the Ohio Farm Bureau Federation has promoted a subsidiary company—the Ohio Farm Bureau Corporation—for performing a miscellaneous marketing service throughout the state along lines similar to the Grange marketing activities of the early days or those of the Missouri Farmers' Association of the present time. In localities where farming is of a very diversified character and livestock a minor item of revenue the county units or local branches of the state Farm Bureau Corporation undertook the handling of livestock shipments and apparently looked forward to extending their activities over the state in general. Such a course, however, has been strongly opposed in those counties where livestock constitutes a major source of farm income and where co-operative livestock associations have already attained a vigorous growth. After considerable debate and some friction a settlement of the issue was worked out and endorsed at the annual meetings of the Farm Bureau Federation and the Ohio Livestock Co-operative Association held on February 27 and March 12, 1929 respectively. In accordance with this agreement the trading corporation subsidiary to the Farm Bureau Federation was to continue handling livestock in those sections of the state having only small or occasional shipments, but without attempting to supersede the commodity marketing organization in those parts of the state where shipments were heavier and the specialized livestock marketing organization already well established.

In the summer of 1930 the Ohio Livestock Co-operative Association, in accordance with the declared policy of the Federal Farm Board, severed its connection

with the state Farm Bureau Federation and "opened its membership on a livestock commodity basis" to all producer shippers. As now constituted, its board of directors consists of two directors from the board of each of the Producers terminal commission associations which serve Ohio, namely, Buffalo, Pittsburgh, Cleveland, and Cincinnati, one elected from each of the five shipping districts of the state, one from the state Grange, and two from the state Farm Bureau Federation. It has fostered the development of the Columbus market, set up a new marketing center at Greenville, and is working toward the establishment of several others. This organization handled nearly 12,000 cars (single-deck basis) in 1930. The relations of the Ohio state producers' association to national developments will be discussed at a later point in our narrative.[16]

[16] See pp. 196, 262, and 318.

# PART II

# CO-OPERATIVE SELLING

# CHAPTER VII

## THE EARLY DEVELOPMENT OF TERMINAL COMMISSION AGENCIES

In Part I we observed how co-operative livestock marketing grew from a simple method of shipping from individual country points to an organized system, gathering local groups into a livestock shipping association movement. The problem of co-operative livestock marketing, however, has also been approached from another angle, namely, co-operative selling either through terminal commission associations or direct from producer to packer. It is with this phase of the subject that we shall be concerned in Part II. The present chapter will trace the evolution of terminal co-operative commission agencies which antedated the Livestock Marketing Committee of Fifteen (January, 1921).

### I. EXPERIMENT AND FAILURE

The earliest attempts of livestock producers to provide their own terminal sales agencies for the marketing of livestock date back to the early seventies when the Missouri State Grange had its own livestock selling agent on the East St. Louis market. After a brief period the Grange withdrew its representative, and no further attempt at co-operative selling was made until 1889. In that year the American Livestock Commission Company was sponsored by the Kansas State Grange and the state Farmers' Alliances of Kansas, Nebraska, and Missouri. This organization was incorporated under the laws of Illinois with an authorized capital of $100,000, consisting of 1,000 shares of $100 par value. The following year the capitalization

was increased to $250,000. The plan of organization provided that no one person or association[1] could own more than 25 shares of stock. Profits were to be distributed among the shippers and shareholders under an arrangement that would set aside 65 per cent of the earnings as a refund for shareholders on a patronage basis, while the other 35 per cent of the earnings was to be divided on a stock basis.

The co-operative character of the American Livestock Commission Company was thus expressed in the provisions which limited stock ownership and provided for the distribution of earnings partly on a patronage basis. Both of these provisions were concessions in an otherwise corporate form of organization. Notwithstanding the restriction, the original capital could have been subscribed by 40 individuals, or associations, if each had availed himself of his right to acquire 25 shares of stock. The capital issue, when later raised to $250,000, could have been subscribed by 100 shareholders. The plan of pro-rating to stockholders 65 per cent of the earnings was co-operative to the degree that its patrons were shareholders. Since 83 per cent of the commissions paid in 1890 came from stockholders, this provision in practice gave the association a substantial co-operative character so far as dividends were concerned.

Business was begun in May, 1889 with a paid-up capital of $25,000, offices being opened at Chicago, Kansas City, East St. Louis, and Omaha. When the capitalization was increased, the paid-up capital rose to $49,000. The American Livestock Commission Company was successful from the start; by November 30, 1889 it had $40,494 to distribute as profits. During 1890 over $2,500,000 worth of livestock was sold on

[1] The term "association" did not refer to shipping associations, a form of organization not then common, but to general groups devoted to improving the livestock industry.

the four markets, and $101,347 was collected in commissions, of which over 90 per cent was earned at the Chicago and Kansas City markets.[2] This success aroused the opposition of other commission firms on the grounds that the American was operating contrary to the anti-rebate rule of the livestock exchanges. The latter therefore refused to grant the privilege of membership to the co-operative organization or to allow their members to deal with it. This handicapped the American Livestock Commission Company so severely that it ceased operations entirely in 1891.

Thereafter the idea of a co-operative commission agency slumbered for fifteen years, to be re-awakened by the formation of the Co-operative Livestock Commission Company. This organization came into being as a protest against an increase in commission rates. Late in 1905 the report gained currency that private commission agencies proposed to secure an advance in commission charges. Immediately the American National Livestock Association, the Corn Belt Meat Producers' Association, the Texas Cattle Raisers' Association, and other educational and protective organizations of livestock producers conferred on the matter with the livestock exchanges. Their efforts were unavailing, and an increase went into effect at Sioux City, Omaha, St. Joseph, and Kansas City on January 2, 1906 and at Chicago on April 9, 1906. The various livestock producers' organizations thereupon held a meeting in Denver and decided to organize a co-operative livestock commission agency. A committee was appointed which presented a plan of organization; this was adopted on May 29, 1906.

The Co-operative Livestock Commission Company was organized under the laws of Colorado, with a

[2] Randell, C. G., "Co-operative Marketing of Livestock in the United States by Terminal Associations," U. S. Department of Agriculture *Technical Bulletin* No. 57, pp. 6-7.

capital stock of $100,000 in non-assessable shares of $10 each, and with a limitation of 50 shares to a stockholder. Shareholders had equal voting power regardless of the amount of stock holdings. Dividends were to be paid on the capital stock at a rate of 8 per cent, and any remaining profits were to be distributed equally among patrons "without regard to whether or not they were shareholders or to the amount of stock held by each." [3] Commission rates were to be charged at the scale that had been effective previous to the increases which had recently been made.

The plan of the Co-operative Livestock Commission Company was well supported by Western stockmen, and there were 1,000 members by January 1, 1907. Offices were opened at Chicago, Kansas City, and St. Joseph in September, 1907, and within five months the Co-operative Livestock Commission Company began to show a profit over operating expenses. As was to be expected, however, the exchange firms on the markets opposed the new company with great bitterness. Boycotts were instituted against traders who purchased of the co-operatives [4] and, as a result, it was impossible to secure a profitable outlet for stocker and feeder cattle. Shippers became alarmed and failed to support the new associations, so that operating losses resulted. The Chicago office continued operations, although with a decreasing volume of business, until December 31, 1909.

## II. THE LIVESTOCK DIVISION OF THE EQUITY CO-OPERATIVE EXCHANGE

In 1916 the Equity Co-operative Exchange of South St. Paul established a special livestock division. In an earlier chapter we explained how the American Society of Equity had been active in establishing

[3] *Ibid*, p. 8.
[4] For the significance of this episode see Chap. X.

shipping associations, especially in Wisconsin, Minnesota, and northern Iowa. Later the Equity directed its attention to providing sales facilities for these shipping associations. The Equity Co-operative Exchange had been started in 1912 as a terminal grain commission association to receive the consignments of local Equity elevators. Finding grain marketing profitable, and feeling that there was a demand for the improvement of livestock marketing conditions, the Exchange set up a branch office in 1916 at the South St. Paul stockyards for the selling of livestock. A second unit was established two years later at Chicago.

Arrangements were similar to those of any other livestock commission firm, with the exception that the Equity commission houses were owned and operated for the farmer membership of local Equity associations. These local Equity units were organized as general purpose co-operatives, buying supplies for farmers and selling surplus agricultural commodities. The Equity Co-operative Exchange served the local associations as a clearing house through which purchases could be made in job lots and as an overhead sales agency for the benefit of grain and, later, of livestock growers. Profits made by the Exchange in its terminal operations were divided among local Equity associations in accordance with their stock interest at an 8 per cent rate which was cumulative. It was provided that any earnings above this amount (after establishing a suitable reserve fund) would be distributed as patronage dividends on the total volume of business. Thus gains or losses made in the livestock division were joined with gains or losses made in the grain division or in the supply buying division. This practice caused considerable resentment among livestock shippers when it became known that earnings from the handling of livestock were offsetting losses

incurred in operating the other departments. Much sentiment arose in favor of reorganizing the Equity Co-operative Exchange to provide for the payment of patronage dividends in the livestock division. This proposal, however, had not been carried out when in May, 1922 the Equity Exchange sold its livestock division to the Iowa Farmers' Union.[5]

Although the commission business of the Equity at St. Paul attained an annual volume of about $5,000,000 worth of livestock and that of the Chicago house as much as $4,000,000 annually, both led a troubled existence. This was due to factional warfare within the Society, faulty management and the employment of inexperienced salesmen, dissatisfaction caused by the method of distributing earnings, and boycotts instituted by the livestock exchanges. To an extent they met this difficulty by establishing stocker and feeder departments of their own,[6] but there were times when receipts of this class of stock and orders for it were not sufficiently in balance to enable them to

[5] The Equity Co-operative Livestock Sales Association at Milwaukee, which has operated since March 20, 1922, was in no way connected with the unfortunate Equity Co-operative Exchange which failed about this time. The Equity Co-operative Livestock Sales Association was organized as a sales agency for the Equity livestock shipping associations in the state of Wisconsin, and its permanent organization was placed "under the direct supervision of the executive board of the Wisconsin State Union and the American Society of Equity." Starting with a membership of 44 shipping associations in 1922, it had 100 in 1926. Patronage dividends have been paid from the beginning, amounting in 1924 to 27.3 per cent and in 1925 to 19.6 per cent of the commissions received. During the years 1922 to 1926 this organization sold 653,688 head of livestock, or 12 per cent of the market receipts for the period. See Macklin, Theodore, and Shaars, Marvin A., "Co-operative Sales Organization for Livestock," Wisconsin Agricultural Experiment Station *Bulletin* No. 394, p. 12; also Randell, U. S. Department of Agriculture *Technical Bulletin* No. 57, pp. 98-99.

[6] See Chap. X.

dispose of it advantageously without resort to the professional trader group.

In time, also, the Equity enterprise at South St. Paul was pushed into the background by the coming of the vigorous Central Co-operative Commission Association in 1921, and the Chicago house had so small a country support as the general Equity influence declined that it had to merge with the Farmers' Union group in order to avoid complete extinction.

### III. THE FARMERS' UNION

The Equity commission house at South St. Paul had scarcely opened its doors for business when the Nebraska Farmers' Union at its 1916 annual convention decided to embark on a similar venture. There had been discussion for some time of the need for setting up a co-operative livestock commission agency on the Omaha market, but it was not until a practical leader came forward that definite action was possible. This leader had now appeared in the person of Charles H. Watts, a well-known cattle grower of Ogallala. He was a man of wide experience in livestock commission operations, having been engaged in the business at St. Joseph, Omaha, and Sioux City, and having been president of the livestock exchange at St. Joseph. Mr. Watts knew that if the Farmers' Union could be persuaded to undertake the operation of a co-operative livestock commission house it could be made successful. In a spirited address he enlisted the support of the delegates to the convention and, as a result, he was given an opportunity to try out his plan.

The Farmers' Union Livestock Commission of Omaha was opened on April 1, 1917 as a livestock selling agency to serve local Farmers' Unions and individual members of the Farmers' Union of Nebraska. The regular commission rates were to be

charged, and any operating profits were to be returned to shippers [7] at the end of each year in proportion to the several shipments of livestock to the market during that year. The Farmers' Union Livestock Commission was not incorporated, since the small requirement of capital—$2,000—was taken directly from surplus funds which had been accumulated by the Nebraska Farmers' Union.[8] The management of the agency was placed directly under the control of the directors of the Nebraska Farmers' Union. Although application was made for membership in the Omaha Livestock Exchange, the request was refused because of the Union's patronage dividend provision. This was declared to be in violation of the anti-rebating rule of the Exchange.

The immediate success of the Farmers' Union plan was largely due to the completeness of the Farmers' Union organization in the area tributary to the Omaha market. Although the overhead expenses were rather high for the first few months, the commission firm was soon functioning on an effective basis. Over 2,000 cars were handled in the first business year, permitting a patronage dividend of 30 cents on each dollar received in commission charges from the membership. At the end of eighteen months the Farmers' Union had passed all but one of the fifty commission firms in volume of livestock handled. At the end of the second year the association had made for the fiscal year a profit of 56 per cent which, after making payments into a sinking fund, remunerating the state Union for the service of its board of directors, and defraying all other

[7] Through the medium of shipping associations or directly.

[8] For a description of the early experiences of the Farmers' Union commission company, see the statement of C. H. Gustafson, president of the Nebraska State Farmers' Union in "Stimulation of Livestock Products," *Hearings* on S. 2199 and S. 2202, 66th Congress, 1st Session, Part II, pp. 1628–33.

expenses, resulted in a return to Farmers' Union shippers of 46 cents on every dollar received in commissions.

Like the Equity terminal commission agencies, the Farmers' Union at Omaha encountered the antagonism of the livestock exchange and a boycott by the traders. As a result, when the Farmers' Union Livestock Commission had feeder cattle for sale, it was likely to find itself short of a market. It had either to sell to speculators who were not afraid of the exchange, and there were few of these, or to its own members who wished feeder cattle. This handicap, due to the boycott, was overcome to a great extent as the Union's operations became large enough to insure its prospective purchasers an adequate supply of stock without the need of filling out their requirements from other firms.[9] Since 1921 the Farmers' Union commission company has held the leading position on the Omaha market.

Six months after the Omaha Farmers' Union Livestock Commission had opened for business, the Nebraska Farmers' Union organized a second sales agency at St. Joseph; and in August, 1918 a third was established by the Nebraska Farmers' Union at Sioux

[9] The following testimony of President Gustafson in Congressional Hearings (see footnote 8, p. 110) throws light upon the general situation.

"Senator Kendrick. Is it not true that this refusal to deal with you as with other traders in the yards on the part of the members of the stock exchange is a real handicap and hardship?

"Mr. Gustafson. In some instances; yes, sir.

"Senator Kendrick. Does it not follow that where another commission firm would naturally use some of the feeder cattle that you have that they would go to the country and buy them for their customers, and where they refused to trade with you, you are short of a market to that extent, are you not?

"Mr. Gustafson. Yes, sir; that is just the statement I was going to make, Senator Kendrick, that especially on feeder cattle we are handicapped quite often, and it makes us go some

City. The agency at St. Joseph was so successful [10] that by 1921 it had taken the leading position in that market. Receipts amounted to 4,818 cars of livestock for that year, and the patronage dividends amounted to 50 per cent of the commission charged. The Sioux City association had greater difficulty in immediately securing patronage, but by 1921 it was second among the commission firms operating on the Sioux City market. On October 1, 1918 a Farmers' Union livestock commission company at Kansas City was sponsored by the Kansas Farmers' Union with the help of the Nebraska Farmers' Union. This concern was chartered as a corporation under the laws of Kansas in July, 1919 with an authorized capital of $30,000,[11] divided into shares of $1.00 par value common stock,

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to find ready markets, especially for a half load or three-quarters of a load.

"Senator Norris. How do you do in a case of that kind? There is not anybody there who will buy, is there?

"Mr. Gustafson. Yes; there are speculators who are not members and who go from one city to another and buy that stuff.

"Senator Norris. Do you have to depend on that class of buyers?

"Mr. Gustafson. Yes; and we sell a good deal of it direct to our members.

"Senator Kendrick. And do you not find buyers amongst the farmers who come to the yards to sell occasionally?

"Mr. Gustafson. Oh, lots of them; yes, sir; quite a number.

"The Chairman. Does it not work out this way, that instead of getting the benefit of a terminal market, you might just as well set up your own market, because you have to do business either with the packing plants, or you have to do business with your own customers?

"Mr. Gustafson. That is true, Senator; yes, sir."

[10] It is now organized as a "joint agency" of ten farmers' organizations in the surrounding territory. These include the Farmers' Unions of Nebraska, Iowa, Kansas, Missouri, and Colorado; the Farm Bureaus of Missouri, Kansas, and Iowa; the Missouri Farmers' Association; and the National Farmers' Equity Union. See also p. 306.

[11] Of this, $16,000 was reported as paid in on Jan. 1, 1927.

LIVESTOCK SOLD BY FARMERS' UNION COMMISSION AGENCIES ON FIVE MARKETS, 1918-1929 [a]
(Initial part years omitted)

| Year | Omaha | | St. Joseph | | Sioux City | | Kansas City | | Denver | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Number of Head | *As Percentage of Market Receipts* | Number of Head | *As Percentage of Market Receipts* | Number of Head | *As Percentage of Market Receipts* | Number of Head | *As Percentage of Market Receipts* | Number of Head | *As Percentage of Market Receipts* |
| 1918 | 267,000 | *3.0* | — | — | — | — | — | — | — | — |
| 1919 | 335,745 | *3.8* | 128,163 | *3.3* | 107,975 | *2.8* | — | — | — | — |
| 1920 | 389,309 | *5.4* | 203,875 | *6.0* | 132,465 | *4.0* | 199,368 | *3.0* | 58,185 | *1.9* |
| 1921 | 450,387 | *6.6* | 327,941 | *10.0* | 211,545 | *8.0* | 262,905 | *4.1* | 58,717 | *2.6* |
| 1922 | 433,051 | *6.1* | 558,511 | *16.2* | 304,006 | *10.8* | 313,932 | *4.4* | 78,892 | *2.7* |
| 1923 | 644,633 | *7.7* | 843,102 | *20.3* | 366,333 | *9.2* | 392,415 | *4.6* | 100,223 | *3.4* |
| 1924 | 716,828 | *8.3* | 780,400 | *19.3* | 574,501 | *11.8* | 495,305 | *6.6* | 235,529 | *7.3* |
| 1925 | 580,283 | *7.8* | 575,717 | *16.2* | 516,983 | *11.1* | 373,349 | *5.7* | 304,869 | *8.9* |
| 1926 | 453,895 | *6.3* | 570,328 | *16.6* | 460,828 | *11.8* | 345,177 | *5.4* | 277,071 | *8.0* |
| 1927 | 423,067 | *6.2* | 522,145 | *15.3* | 322,025 | *8.8* | 314,784 | *5.3* | 129,351 | *4.3* |
| 1928 | 514,077 | *6.7* | 555,551 | *14.2* | 436,904 | *10.6* | 355,290 | *5.6* | 195,064 | *5.5* |
| 1929 | 499,519 | *6.5* | 489,102 | *12.7* | 390,056 | *9.8* | 365,178 | *5.7* | 214,170 | *6.2* |

[a] Farmers' Union figures are from Randell, C. G., "Co-operative Marketing of Livestock in the United States by Terminal Associations," U. S. Department of Agriculture *Technical Bulletin* No. 57; Division of Co-operative Marketing of the Federal Farm Board; and various publications of the Farmers' Union.

Figures for market receipts (horses and mules omitted) were furnished by the Bureau of Agricultural Economics of the U. S. Department of Agriculture.

with a limitation in ownership of 100 shares per individual, each individual to be a member of a bona fide farmers' organization.[12] In the fall of 1919 a capital stock firm was opened at Denver by the Colorado Farmers' Union, again with the help of the Nebraska Farmers' Union, whose membership furnished much of its patronage. Within a little more than two years, therefore, the services of Farmers' Union commission agencies had been made available at five Western markets. These five selling agencies may be thought of as the nucleus of the Farmers' Union livestock commission structure. The table on page 113 shows for these five associations the number of livestock sold each year and the percentage that this is of total receipts at the respective markets. Co-operative commission companies have always been more prominent in the selling of hogs than of other species of livestock. Hence if we were to tabulate their sales of hogs as percentages of all the hogs sold on these five markets, the ratio would be very much higher than that shown for total market receipts—almost double in the case of the Omaha and St. Joseph companies.

These five Farmers' Union commission agencies were augmented to seven in May, 1922 through the purchase of the livestock departments of the Equity Exchanges of St. Paul and Chicago. This move rounded out the Farmers' Union structure of co-operative livestock selling by giving to such Union members as resided in Minnesota, Iowa, and other tributary states terminal houses of their own through which their stock could be marketed. They had also a less direct interest in an eighth market—St. Louis.

The center of Farmers' Union strength in Iowa was in the southeastern part of the state, and shippers in

[12] This firm established a branch office at Wichita in September, 1923.

that section had been sending an increasing amount of their stock to the St. Louis market. In Missouri likewise there was a considerable Farmers' Union

LIVESTOCK SOLD BY FARMERS' UNION AND AFFILIATED AGENCIES ON CHICAGO, ST. PAUL, AND ST. LOUIS MARKETS, 1922-1929 [a]

| Year | Chicago | | St. Paul | | St. Louis | |
|---|---|---|---|---|---|---|
| | Number of Head | *As Percentage of Market Receipts* | Number of Head | *As Percentage of Market Receipts* | Number of Head | *As Percentage of Market Receipts* |
| 1922..... | 190,458 | *1.2* | 89,822 | *2.0* | 583,345 | *10.4* |
| 1923..... | 416,247 | *2.3* | 207,065 | *4.0* | 1,042,755 | *15.4* |
| 1924..... | 516,792 | *2.8* | 277,148 | *5.0* | 1,138,277 | *17.6* |
| 1925..... | 464,004 | *2.9* | 280,496 | *4.8* | 837,700 | *15.2* |
| 1926..... | 516,033 | *3.3* | 211,206 | *3.4* | 902,300 | *15.8* |
| 1927..... | 569,331 | *3.8* | 231,596 | *4.3* | 952,340 | *16.6* |
| 1928..... | 646,647 | *4.1* | 313,164 | *5.9* | 960,592 | *16.4* |
| 1929..... | 681,631 | *4.5* | 546,609 | *10.1* | 902,457 | *16.0* |

[a] Farmers' Union figures are from Randell, C. G., "Co-operative Marketing of Livestock in the United States by Terminal Associations," U. S. Department of Agriculture *Technical Bulletin* No. 57; Division of Co-operative Marketing of the Federal Farm Board; and various publications of the Farmers' Union.

Figures for market receipts (horses and mules omitted) were furnished by the Bureau of Agricultural Economics of the U. S. Department of Agriculture.

membership. The interests of these two Farmers' Union groups in the St. Louis market were distinctly recognized in the setting up of the Farmers' Livestock Commission Company on November 16, 1921. This house was established under the auspices of the Missouri Farmers' Association primarily as an outlet for shipments of the Farm Clubs which constitute the membership of the Missouri Farmers' Association, but it also was supported by the Farmers' Unions of Iowa and Missouri.

The significance of the Farmers' Union and Farm Club development in these last three markets is shown in the table on this page.

It will be seen that the Farmers' Union terminal selling enterprises developed a rather comprehensive structure covering eight of the eleven principal live-

stock markets.[13] In the summer of 1922 an effort was made to establish a national overhead organization under the name "The Farmers' National Co-operative Livestock Marketing Association." [14] It hardly proceeded beyond the paper stage, however, and commission associations of the Farmers' Union group remained independent and essentially isolated marketing units. Although there was a general sense of kinship between them on the basis of their common connection with the Farmers' Union, there was no general supervisory body or agency specifically designed to weld them into a unified marketing system until the establishment of the Farmers' Livestock Marketing Association in 1930 (see Chapter XVI).

### IV. THE CENTRAL CO-OPERATIVE COMMISSION ASSOCIATION

Unlike the Farmers' Union or the Equity commission associations which had been established primarily to serve the purposes of general farmers' organizations, the Central Co-operative Commission Association of St. Paul was organized to serve a particular commodity group already established in the territory

[13] Also, the Kansas City Farmers' Union organization opened a branch at Wichita which sold 124,062 animals in 1927, 118,217 in 1928, and 106,467 in 1929.

Besides these commission agencies at public stockyards points, the Farmers' Union of Kentucky constructed private yards at Lexington and sold stock by auction methods there and at several other places in the state.

[14] The Nebraska Farmers' Union in the spring of 1920, at the height of its organizational activity, had hoped to unite the livestock commission agencies under one corporate head. Charles Watts was the active exponent of this plan, and it would have gone into operation except for the technical difficulty of providing a form of organization acceptable to the state corporation laws of the various states in which the corporation proposed to operate.

contiguous to that market.[15] For some years leaders of the Minnesota co-operative shipping association movement had dreamed of the establishment of a livestock commission agency at St. Paul. However, an insurmountable difficulty had been found in the opposition of the St. Paul Livestock Exchange, whose discrimination against the Equity has already been noted. The Minnesota federation of shippers succeeded in 1921 in securing the passage of the following "open market law," designed to give protection from boycotts and discrimination on the public markets.

> Any rule, by-law, regulation, or requirement of a livestock exchange or association maintaining a place for its members where any livestock is bought, sold, or exchanged for themselves or for others, to the effect that no member thereof shall buy, sell, or exchange livestock with a person who is not a member thereof, is hereby declared to be contrary to public policy and is made null and void, and the dealing in livestock by a member of such an association with a non-member shall not work any penalty to such member, nor shall such dealing be cause for a cancellation or forfeiture of membership in such livestock exchange or association.[16]

With this law enacted, the Minnesota shippers' federation undertook the organization of a co-operative selling agency on the South St. Paul market, and the Central Co-operative Commission Association was incorporated on May 11, 1921 as a co-operative, non-profit livestock selling agency. Capital stock was fixed at $25,000, but was very shortly increased to $50,000. This stock was sold only to local co-operative organiza-

[15] The Minnesota Farm Bureau and the Extension Division of the state university, however, gave considerable support to the development of the Central Co-operative Commission Association.

[16] *Laws of the State of Minnesota Relating to the Railroad and Warehouse Commission,* 1925, Sec. 5237, p. 130 (also *Minnesota Laws of 1921,* Chap. 344, Sec. 1).

tions which were engaged in marketing livestock, thus taking in "local co-operative shipping associations, local elevators which have a separate and independent livestock shipping department, or any other local organization regardless of name which is engaged in marketing livestock co-operatively." [17] In February, 1924 the by-laws were amended to provide for $50,000 of common stock with a par value of $25 a share, and $50,000 of preferred stock with a par value of $1.00 a share. The only difference between the two types of stock lies in the fact that common stock is sold only to local co-operative livestock marketing and shipping associations, while preferred stock is issued to individual producers of livestock. Shipping associations with one or more shares of common stock have one vote each, and individuals with one or more shares of preferred stock have one twenty-fifth of a vote in managing the affairs of the organization.

Originally the by-laws provided for distributing a patronage refund among all patrons alike, regardless of membership, but they were changed shortly to comply with the provisions of the Packers and Stockyards Act (passed in 1921). This act stipulated that a co-operative may refund only to bona fide producer members. Until the by-laws were amended in 1924, admitting to membership individual producers through the purchase of preferred stock, only members of shipping associations which had bought stock in the Central were eligible to patronage refunds.[18]

[17] Montgomery, J. S., *The News* (published by the National Livestock Producers Association), December, 1923.

[18] From November, 1923 to November, 1924 the Central was affiliated with the National Livestock Producers Association. See p. 152.

In March, 1927 the name of this association was changed from the Central Co-operative Commission Association to the Central Co-operative Association.

While rates at South St. Paul, in keeping with similar increases at other markets, had been recently raised, the Central Co-operative Association elected to operate under the old scale. Its commission charges are 25 per cent below those of exchange firms. Savings in operating costs are paid to shippers as patronage refunds after a payment of 8 per cent on capital stock and deductions for reserves have been made.

The Central opened its doors on August 8, 1921. Its success was immediate, and it soon grew to be a dominant selling force on the St. Paul market. In 1926 the association sold approximately $41,000,000 worth of livestock, the largest volume of business ever handled by a single livestock commission firm in one

SALES OF ALL LIVESTOCK AND OF HOGS BY THE CENTRAL CO-OPERATIVE ASSOCIATION, 1922-1929

| Year | All Livestock | | Hogs | |
|---|---|---|---|---|
| | Number [a] | *As Percentage of All Market Receipts* [b] | Number [a] | *As Percentage of All Market Receipts* [b] |
| 1922 | 999,330 | *22.7* | 691,356 | *27.4* |
| 1923 | 1,409,481 | *27.4* | 1,072,476 | *32.1* |
| 1924 | 1,420,030 | *25.6* | 1,083,952 | *28.9* |
| 1925 | 1,367,977 | *23.5* | 988,075 | *27.1* |
| 1926 | 1,522,878 | *24.8* | 1,031,323 | *29.9* |
| 1927 | 1,457,595 | *27.0* | 720,285 | *23.2* |
| 1928 | 1,377,940 | *26.1* | 953,972 | *32.9* |
| 1929 | 1,395,815 | *25.5* | 925,148 | *32.3* |

[a] Figures were furnished by the Division of Co-operative Marketing of the Federal Farm Board.
[b] Compiled from figures furnished by the Bureau of Agricultural Economics of the U. S. Department of Agriculture.

year. In 1929 it sold $36,121,494 worth of livestock for some 125,000 producers who were members of shipping associations or who were shipping indepen-

dently. The sales of this concern for the years 1922-1929 and their relation to total market receipts are shown in the table on page 119.

The success of the Central Co-operative Association and of the Farmers' Union houses shows clearly the importance of co-operative shipping associations in building up an adequate volume of business for terminal selling agencies. The failure of both the American Livestock Commission Company of the early nineties and the Co-operative Livestock Commission Company of 1907-1909 was due in large part to the lack of adequate and dependable support from livestock producers. The successful commission agencies described in the latter part of this chapter have all grown "from the bottom up" as the culmination of a previously developed shipping association movement. We turn now to a contrasting system of co-operative livestock marketing, more ambitious in character and constructed upon a somewhat different theory.

## CHAPTER VIII

## THE LIVESTOCK MARKETING COMMITTEE OF FIFTEEN

The early Equity and Farmers' Union commission firms which were the pioneers of the modern movement for co-operative terminal selling of livestock were established during the years from 1916 to 1919, a period which, as we have seen in Chapter II, was marked by very rapid expansion of the number of local shipping associations. The local shipping movement aimed at securing greater economy in the handling of stock in the country, and the terminal commission agencies were looked upon as a means of carrying this method of economical and equitable handling of the farmer's business through the final market.

Beginning in 1920, however, and growing rapidly in the years immediately following, a new influence came into the co-operative livestock marketing movement. This was the so-called "commodity marketing" influence which was transplanted from the Pacific Northwest wheat country into the cotton region of the South, thence to be rapidly propagated throughout practically all of the Middle West. The "commodity marketing" philosophy did not limit itself to the modest ambitions of the earlier co-operative movement in the direction of efficient and economical market distribution of the farmer's product. It addressed itself more directly to the question of price, and aimed, through more or less extensive control of supplies, to influence the exchange ratio at which strongly organized farmers would part with their produce.

## I. ORIGIN AND ORGANIZATION OF THE COMMITTEE OF FIFTEEN

The first expression of this philosophy as applied to the livestock industry came apparently in the spring of 1919 when certain leaders among the cattle interests perceived that disaster was impending. The business had been greatly expanded during the war, and high prices and apparent prosperity had continued for some months after the Armistice. Supplies, however, were obviously redundant, and in fact cattle prices began to break more than a year before the widespread slump in agricultural prices which overwhelmed agriculture in the fall of 1920. Leaders in the industry who foresaw this situation started discussion and arranged conferences with the meat packers to see if anything could be done to avoid calamity. They established a "producers' committee," with four delegates chosen from the range interests, eight from the feeder group, two from the swine producers, and one from the sheepmen. This committee, however, was without authority and practically without funds, and soon realized that anything which might be done to forward the readjustment of the industry and the stabilization of prices must come from some organization of much wider influence. For this it turned to the American Farm Bureau Federation, which had grown enormously in size and influence during the preceding year.

The Farm Bureau, on its part, was looking for some large, not to say spectacular, field of endeavor in which it could show striking results for the agricultural industry.[1] Certain of its officers had been impressed

[1] The Federation had indeed intimated in its first meeting in November, 1919 that it would endeavor to work out some program of marketing improvement. In this it was merely proposing to put on a national basis some of the activities already being undertaken by state Farm Bureau Federations, particularly those of Illinois, Indiana, and Iowa. The executive

with the potentialities of "commodity marketing" and the evangelism of its outstanding leader, Aaron Sapiro. They accordingly arranged for a great meeting of grain and livestock producers to be held at Chicago in July, 1920, this conference to be addressed by a variety

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committee of the Illinois Agricultural Association (which is the state federation of county Farm Bureaus) early in 1920 appropriated $63,000 for financing a livestock marketing department, a move which was a direct outgrowth of the work during the preceding year of the livestock committee of that organization. Professor Herbert W. Mumford, of the University of Illinois, was appointed director, and representatives were stationed on both the Chicago and East St. Louis yards to investigate methods of livestock marketing and to handle claims for members. When the National Livestock Producers Association established an agency at East St. Louis, the representative of the Illinois Agricultural Association was taken over as stocker and feeder man, and one of the representatives on the Chicago market was employed as manager when the Producers entered that market. The marketing department of the Illinois Agricultural Association devoted a good deal of attention to the problems of co-operative shipping associations, thus performing the functions of a state livestock federation of shippers. Mr. Mumford, as director of the marketing department, had carried on a state livestock survey, securing data which it was expected could later be used for the purpose of eliminating market fluctuations.

The Indiana Federation of Farmers' Associations (the early name of the present Indiana Farm Bureau Federation) arranged to place a farmers' representative on the Indianapolis yards later in the spring of 1920. Also it followed the idea of the Illinois Agricultural Association in making a survey of the livestock population of the state. Every organized township held a special meeting at which farmers reported the number of cattle, sheep, and swine owned by them as of January 1, 1920, the number of births, deaths, sales, feeding periods, and so forth. It was believed that this plan would enable the members of the Indiana Federation of Farmers' Associations to plan their feeding projects so as to avoid a glut on the market at certain periods.

Similarly, the Iowa Farm Bureau joined with the Corn Belt Meat Producers' Association in setting up a statistical office on the Chicago market, and during the year 1920-21 C. L. Harlan carried on an intensive investigation of marketing conditions for corn-fed cattle.

of co-operative marketing leaders, but to culminate in a speech by Mr. Sapiro. His marketing philosophy, as expounded on that occasion, met with an enthusiastic response on the part of a considerable portion of his audience. For one reason or another, however, the question of grain marketing claimed the center of the stage, and problems of the livestock industry were relegated to the background. The meeting in fact resolved itself into a grain marketing conference on the understanding that a similar conference of livestock producers would be called a few months later.

This livestock marketing conference was in fact convened in Chicago on October 8, 1920. It was understood that this was not a Farm Bureau gathering, but that the Bureau simply volunteered its good offices to assemble a conference representative of all branches of the livestock industry to see what could be done through widespread group effort toward improving prices to the livestock producer.[2] The result of the conference of October, 1920 was a resolution calling upon the president of the American Farm Bureau Federation to appoint a committee consisting of fifteen members representative of all phases of the livestock marketing problem which should study the situation and recommend a plan of action.

On January 3, 1921 the appointment of a Livestock Marketing Committee of Fifteen was announced. As the list was presented, no statement was made of the connection of the members with any particular organization, it being apparently intended that they should not be considered as representing organizations, but merely as contributing to the Committee their varied and specialized knowledge of the general

[2] The call sent out by President Howard on September 28 was headed: "Attention: Farmers' Unions, Equities, Granges, Farm Bureaus, Livestock Co-operative Shipping Associations, and all other Livestock Associations and Exchanges."

subject. It is not difficult, however, in scanning the list [3] to detect numerous affiliations of the personnel with the several organizations which had been most actively interested in the problem of better livestock marketing. Two members had been identified with the American Society of Equity, three with the Farmers' Union, six with the Farm Bureau, and seven with various feeders' or breeders' associations.

The majority of the members were actively engaged in livestock production, and animal husbandry departments of the agricultural colleges were ably represented by seven men who either were then or had previously been connected with college work. One member brought to the Committee the practical experience of the Minnesota Federation of Co-operative Shippers, which was already in process of organizing its own terminal commission house. Only this one member had been intimately identified with the co-operative livestock marketing movement, and no one of professional economic standing was appointed. The Committee, however, did associate with itself George Livingston, chief of the United States Bureau of Markets, in an advisory capacity, and employed C. L.

[3] The personnel of the Committee was as follows: C. H. Gustafson of Nebraska, A. Sykes of Iowa, W. A. McKerrow of Minnesota, J. M. Anderson of North Dakota, O. O. Wolff of Kansas, J. B. Kendrick of Wyoming, W. A. Cochel of Kansas, E. H. Cunningham of Iowa, S. P. Houston of Missouri, C. E. Collins of Colorado, Harry G. Beale of Ohio, W. J. Carmichael of Illinois, and H. M. Gore of West Virginia. Alternates were J. E. Boog-Scott of Texas, C. H. Hyde of Oklahoma, W. R. Pew of Ohio, John G. Brown of Indiana, W. S. Corsa of Illinois, James Clemens of Wisconsin, James E. Poole of Chicago, John M. Evvard of Iowa, and E. C. Lasater of Texas. Houston, Anderson, and Poole shortly disappeared from the picture, and Dean J. H. Skinner of Purdue University was added to the Committee. Professor H. W. Mumford, on leave of absence from the University of Illinois and serving as livestock marketing director of the Illinois Agricultural Association, was selected by the Committee as secretary-treasurer.

Harlan, a thoroughly competent expert in livestock marketing. Likewise marketing specialists from both the academic and the commercial field were called from time to time to serve as sub-committees on particular phases of the study. The findings of these advisors, however, were freely blue-penciled.

The Committee of Fifteen met for work in Chicago on February 23, 1921, when Mr. Gustafson was unanimously elected to serve as chairman, with Mr. Sykes as vice-chairman and Mr. Mumford as secretary-treasurer. The secretary became in fact the executive director of the work of the Committee. Mr. Gustafson at this meeting stated that the objective of the Committee was "to get the livestock business back on a sound basis and keep it there. It is up to this Committee to work out a plan that will make it certain that the deplorable conditions that are wrecking the livestock business of the country will not occur again." The Committee as a whole agreed in this emphasis upon profitable prices and recovery of the industry from depression. Marketing problems were considered, particularly with reference to their bearing upon this larger objective, attention being centered upon means of regulating the flow of livestock to market. Great importance was attached to the work of a sub-committee on orderly marketing.

For nearly six months, work was prosecuted actively under the direction of the secretary, a tentative plan being announced about the middle of August. The Committee proper was convened six times, and spent altogether a period of fourteen days in session. After the tentative announcement of August, minor difficulties were further ironed out and the whole plan submitted to a ratification conference convened at Chicago under the auspices of the Farm Bureau on November 10, 1921. We should therefore examine in

detail the blueprint in accordance with which the newest and most comprehensive scheme of co-operative livestock marketing was to undertake its work of building.

## II. THE LIVESTOCK MARKETING PLAN

The report set forth in its preliminary statement the belief of the Committee that livestock producers should be welded together in a national producers' organization, widely representative of all branches of the industry. Existing associations were regarded as too local in character and too weak in their financial position to deal adequately with the problems of livestock producers. The Committee further felt that such a national organization could most effectively be developed around the practical function of marketing its members' livestock. They therefore proceeded to set up a national structure, based upon a system of terminal livestock commission associations, with an overhead service organization on the one hand and an underlying body of producing members on the other, the latter being more or less completely united on a local group basis through co-operative shipping associations. The agencies which they proposed were four in number:

1. Producers livestock commission associations
2. The National Livestock Producers Association
3. Producers stocker and feeder companies, to be in connection with No. 1
4. Co-operative shipping associations at local shipping points

The aspiration that this should be a national organization on a commodity basis, with no connection in name with any other farmers' organization, was reflected in the title, "National Livestock Producers Association," and the word "Producers" has been the

symbol by which all parts of the system have since been designated. The four parts of the plan may be briefly described.

1. *Producers livestock commission associations.* These were to be "established at the various markets contingent upon the local demand and the probable business at such market, these facts to be determined by the board of directors of the National Livestock Producers Association in conference with patrons of the terminal market involved." They were to be co-operative livestock commission agencies of the sort which we have described in the preceding chapter and based on a membership of either individuals or local livestock shipping associations. It was required that all individual members should be actual producers of livestock and that they must withdraw from their respective associations in case they should go out of the business. The membership fee for associations was $50 [4] and for individuals or firms was $10. Membership in any terminal commission association entitled the holder to the privileges of any other terminal association within the system.

Control was vested in a board of directors selected by a body of delegates to be chosen by the members roughly in proportion to the amount of livestock which they contributed to the terminal agency.[5] The co-operative character of the terminal commission

[4] Plus 50 cents per car for all shipments in excess of 50 cars annually.

[5] The first intimation that this "Producers" system was in fact a Farm Bureau enterprise appears in section 16 of the plan of organization. It is there provided that the devising and execution of the plan for the nomination and election of delegates "shall be made by the state Farm Bureau Federations whose members patronize that particular terminal market." A similar tying-in is to be seen also in other control features (see sections 23, 62, and 64; compare also pp. 135–39 of this chapter).

associations was further provided by an arrangement for pro-rating earnings to patrons. This was to be done in proportion to the amount of commissions paid and was to be at the same rate to non-members as to members, provided that they were eligible to membership, earnings on their business being applied to the payment of the membership fee. If they were ineligible to membership, the refund was to be at one-half the rate to members, the balance reverting to the surplus account.

2. *The National Livestock Producers Association.* "In order to co-ordinate the work of these terminal commission associations and otherwise promote the welfare of livestock producers there [was] created a National Livestock Producers Association, a corporation not for pecuniary profit, national in scope and function." Membership in the national organization was to consist of (a) individuals or firms and shipping associations who were members of terminal commission associations or stocker and feeder companies and (b) these commission associations and feeder companies themselves. Government of the National was vested in a board of directors chosen from the terminal commission associations,[6] each director having voting power proportionate to the volume of stock handled by the terminal company which he represented on the basis of one vote for each 10,000 cars.

The function of the National Livestock Producers Association as an overhead agency is shown in the

[6] The personnel of the first board of directors prior to the organization of the terminal commission companies consisted of nine members selected by the executive committee of the American Farm Bureau Federation from a list of eighteen nominated by the Committee of Fifteen in addition to the membership of the Committee of Fifteen (and alternates) itself.

statement of duties of this board of directors. They included the following:

To incorporate, establish, and co-ordinate the work of terminal commission associations and producers' stocker and feeder companies.

To provide a uniform system of bookkeeping and accounting and secure proper auditing of the books of producers' livestock commission associations and producers' stocker and feeder companies.

To encourage co-operative livestock shipping associations and assist them in making their work effective.

To perfect and put into operation the plans for orderly marketing.

To furnish to producers, feeders, and graziers information which may enable them to market their livestock more intelligently.

To establish as soon as practicable a transportation department.

To interpret for producers information furnished by the Bureau of Markets and Crop Estimates.

To secure additional data from livestock producers and their organizations.

To serve as a board of arbitration when differences arise between those under its jurisdiction.

To formulate rules and regulations under which authority may be granted to expel members for cause.

To perform any additional service that will be of benefit to the industry and within the resources of the association.

The cost of maintaining the National Livestock Producers Association was to be defrayed by a service charge of not more than 50 cents per car (75 cents on double-deck cars) of stock handled by the constituent terminal commission associations.

3. *Producers stocker and feeder companies.* The Producers stocker and feeder companies were to be established on the various markets contingent upon the need of the terminal livestock commission associations for them. These companies were to purchase livestock from the terminal commission associations

or others and sell it to their members for purposes of feeding or breeding. This membership was identical with the membership of the Producers livestock commission associations. All surplus earnings of the Producers stocker and feeder companies were to be pro-rated back to buyers as patronage dividends.

4. *Co-operative livestock shipping associations.* In addition to these three new structures proposed by the Committee of Fifteen, its plan included also one existing agency, namely, the local co-operative livestock shipping association. The terminal commission associations and stocker and feeder companies looked to producers in the country as the source of the stock to be handled by them. The individual carlot shipper could handle his own business, but less than carlot producers needed the local co-operative shipping association as a means of assembling full loads. The local shipping association was therefore accepted as an incidental feature of the plan. It was expected to continue to function as in the past, but on a basis of improved efficiency as a result of general suggestions incorporated in the report of the Committee of Fifteen and such assistance or supervision as might be forthcoming from the National Livestock Producers Association or the several terminal commission associations.

Perhaps the most significant suggestion which was made in this connection was contained in the following paragraphs:

> The co-operative livestock shipping association . . . should be incorporated because it provides for limited liability of members.
>
> In the organization of new associations, local conditions and the policy being followed in the state will largely determine the type of organization chosen—local, regional, or county-wide . . .

> Local, county, and regional associations can most advantageously and economically function through some strong state-wide farm organization not confined to or undertaking to represent a single farm product or commodity, but an association which is serving or attempting to serve all farmers. Specialized collective needs of shipping associations should be safeguarded by the terminal Producers commission associations.
>
> Existing effective state associations representing co-operative livestock shipping associations may and should affiliate with a state-wide farm organization.

The significance of this apparent departure from the principle of "marketing by commodity" will be discussed in a later part of this chapter and also in Chapter XI.

In addition to setting forth the structure and functions of these four marketing agencies, the report of the Committee of Fifteen contained an extended discussion of the problem of orderly marketing, "the most important general problem confronting the livestock industry." The conclusions on this issue were stated in three propositions, as follows:

> The welfare of the livestock industry is best served by the maintenance of fairly stable prices whereby marked daily fluctuations are avoided.
>
> . . . . . . . . . . . . . . . . . . . .
>
> A plan of orderly marketing, when proper support can be given it by those who control the selling of the major portion of livestock receipts, will permit valuations to be created by demand in competition among buyers and will have the additional value of regulating supplies, thus permitting a much greater return to producers.
>
> . . . This can best be brought about through the co-operative selling agencies developed to such a point that they may direct the flow of livestock to the market.

The Committee felt that a great obstacle in the way of attaining this goal was to be found in the fact that "no one group of men representing the producers can

speak with sufficient authority to put into execution any effective plan which might be suggested." It felt, however, that the general machinery which it was proposing offered a long-run possibility of building up such a solidarity within the industry as would go far toward achieving this result.

To the board of directors of the National Livestock Producers Association, therefore, was committed the task of shaping the growth and policy of the constituent agencies to the attainment of this major objective. In this connection great emphasis was placed upon the securing of the most complete information possible as to livestock production and market movement. Although the work of the United States Bureau of Markets and Crop Estimates was commended, it was felt that the National Livestock Producers Association should increase the scope and accuracy of these figures and interpret them in such a way as to make them of maximum aid to the farmer. Improvement of transportation service and the development of concentration yards under producers' control for the handling of hogs were also considered. Finally it was recommended "that the National Livestock Producers Association co-operate with the American Farm Bureau Federation in giving the public a more wholesome and trustworthy appreciation of the value of meat and meat products in the diet."

## III. THE RATIFICATION CONFERENCE

The conference called by President Howard of the American Farm Bureau Federation to ratify the plans of the Committee of Fifteen was held in Chicago on November 10 and 11, 1921. It consisted of "53 delegates from 15 states, the bulk of whom were Farm

Bureau men, with a considerable sprinkling of delegates from shippers' and feeders' organizations." [7]

There was outspoken dissatisfaction as to various aspects of the plan. The delegates refused to "rubber stamp" blindly the actions of the Committee, and as the report was read section by section the various points were debated. According to the *Prairie Farmer*, "the centers of dissatisfaction were Ohio, the co-operative shippers' delegates, and the representatives of the range states. Each had a different grievance." [8] That of the range states can be most easily disposed of. They asserted that the Committee plan offered little or nothing to the range country but was primarily a Corn Belt scheme. This had a certain element of truth in it. Both the cattle and sheep industries were in a depressed condition and wanted something which promised an immediately favorable effect on prices. They were in only a secondary way interested in the improvement of marketing machinery, and were not at all concerned about co-operative livestock shipping associations. Much the same may be said for the cattle feeders of the Corn Belt, who market a premium product largely in individual carlots. Although range interests have subsequently participated in an increasing degree in the work and benefits of the National Producers system, the immediate interest in the Committee of Fifteen plan was primarily in the hog shipping territory of the Middle West, and it was representatives of this territory who made up the large

[7] *Prairie Farmer*, Nov. 19, 1921, p. 4.

National Livestock Producers Association *Bulletin* No. 1 (Jan. 10, 1922) gives a list of 60 delegates to the ratification conference, of which 14 state Farm Bureau Federations accounted for 35. Four state federations of co-operative shippers sent a total of 5 delegates. There were 11 sheep and wool, cattle, and swine producers' organizations and 2 co-operative livestock selling agencies represented.

[8] Nov. 19, 1921, p. 4.

majority of those in attendance at the ratification conference and who were active in putting the plan into operation.

The other and more serious bases of opposition to the Committee plan hinged upon two general issues: (1) the relation of the National Producers system to the already existing co-operative livestock marketing movement, and (2) its relation to general farm organizations.

As to the first of these objections, the view was expressed early in the conference that co-operative organization should grow from the bottom up, whereas the Committee of Fifteen plan proposed building from the top down. "Before Mumford had finished reading the introduction to section one, Lincoln of Ohio moved to change the form of the plan by beginning with shipping associations. The plan begins with the terminal commission companies. He was supported by McKerrow of Wisconsin [9] and Bradfute of Ohio; their argument was that all co-operative organizations begin with the ground and build up." J. G. Brown of the Indiana Federation of Farmers' Associations and Mumford took up the challenge. They replied "that the plan of the Committee was built on the individual farmer and that it is controlled by the farmers who ship stock to the co-operative agencies." On a vote, the Committee of Fifteen plan on this point was sustained by the narrow margin of 28-22, "the Farm Bureau delegates from Indiana, Illinois, and Iowa—16 in number—forming the nucleus of the supporters of the Committee." [10]

This, however, was a tactical victory rather than a real solution of the difficulty. To say that "the plan of

[9] That is, the elder McKerrow, father of W. A. McKerrow of the Minnesota Central, who was a member of the Committee of Fifteen.

[10] *Prairie Farmer*, Nov. 19, 1921, p. 4.

the Committee was built on the individual farmer" was hardly less than rubbing salt in the wounds of the leaders of the existing co-operative shipping movement. They might well retort that the Committee of Fifteen was planning to go over their heads or around them to the individual farmers and build them into a new system whose control would be vested in the National Livestock Producers Association. We have already seen in Chapter VI that when the issue was presented to the state federation of co-operative shipping associations in Iowa they were unwilling either to tear down the structure which they had already built of local shipping groups joined in a state service organization or to turn this federation, with its local units, over to the state Farm Bureau Federation.

A similar point of view was held by the Minnesota men, who believed that the proper procedure was for local producers to federate into a shipping organization which in turn would set up its own selling agency. Michigan, Wisconsin, and Kansas also indicated adherence to the idea that any nation-wide livestock marketing plan should come as a result of the expansion of local shipping organization into the field of terminal selling. A delegate from the latter state expressed the opinion that the Committee's plan would cause "little short of revolution and murder in Kansas" in view largely of the fact that such co-operative shipping as already existed in that state was highly colored with Farmers' Union sentiment, and the Farmers' Unions, as we know, had already gone far along the road of developing a terminal selling service for their members. The question of the relation of the Committee of Fifteen plan to existing shipping associations and state federations where they existed thus merges into the second major difficulty which the plan

encountered, namely, the relation of the whole livestock marketing system to general farm organizations.

It was the feeling of the federated shippers, most fully organized in Iowa and Minnesota, that the movement should develop along strictly commodity lines without regard to other affiliations of the constituent membership.[11] This view was sharply challenged in those states where livestock marketing departments had been vigorously developed in the state Farm Bureau organization, particularly in Illinois and Ohio. During the progress of the work of the Committee of Fifteen the Equity influence had largely disappeared as a result of the embarrassment and eventual failure of the American Equity Exchange. The Farmers'

[11] This view was expressed in the report of the sub-committee on co-operative shipping associations called in an advisory capacity by the Committee of Fifteen during the time when it was preparing its report. The report submitted to the Committee of Fifteen contained the following paragraphs:

"Local, regional, and county associations require for their efficient operation that they be consolidated by federation or otherwise into strong state organizations of a commercial type. Such state commodity associations should act as overhead supervisory and service agencies for all local associations within their area. They should in turn be affiliated with, or supported by, such general associations of farmers as are organized for the promotion of the legislative, educational, and economic interests of their members, many of whom are identified with the livestock shipping organization.

"It is impracticable at this time to lay down a hard and fast rule governing eligibility to membership in livestock shipping associations. The general principle should be recognized that the best interests of the livestock producers of the country will be served by the strengthening of not only the co-operative shipping associations, but also of strong general farmers' organizations. However, the practice of making membership in the shipping association conditional on membership in some such other general farm organization, which has been followed in some states, is contrary to the fundamental principle of commodity co-operative associations, which requires that membership be open to all producers of the given commodity."

The first of these paragraphs was adopted by a majority vote of the Ohio, Missouri, and Iowa members of the sub-

Union left no uncertainty as to its position. Farmers' Union men serving on the Committee were branded as renegades, and it was clear that they would have little or no influence in bringing Farmers' Union support to the system. Everybody understood that when the Committee of Fifteen recommended that local shipping associations of the state federations "should affiliate with a state-wide farm organization" it was not urging them to fly to the protecting arms of any state Farmers' Union, but rather that it was intended that such commodity marketing groups should merge themselves into their respective state Farm Bureau Federations. Such a development was already under way in Michigan, Ohio, Indiana, and Illinois. Whatever merits in terms of better commercial management and more ample financial backing this plan may have, it obviously

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committee, but with the Illinois and Indiana members dissenting. To the second paragraph the Indiana and Ohio members dissented. The Committee of Fifteen, after considering this report, discarded the two paragraphs submitted in the report proper, substituting therefor the two paragraphs recommended by the dissenting members, as follows, thus restoring the text of the draft report as offered to the sub-committee by the secretary of the Committee of Fifteen.

"Local, regional, and county associations can most advantageously and economically function through some strong state-wide farm organization not confined to or undertaking to represent a single farm product or commodity, but an association which is serving or attempting to serve all farmers, many of the problems and general welfare of whom are identical. It is thought that the terminal Producers commission associations will safeguard specialized collective needs of shipping associations.

"The general principle should be recognized that the best interests of the livestock producers of the country will be served by the strengthening of not only the co-operative shipping associations, but also of strong general farmers' organizations. It is believed, therefore, that this can be best accomplished by making, where conditions make such a policy practicable, the basis of membership in the co-operative livestock shipping association, membership in the general farmers' organization of the state."

departs from the principle of service of the industry as a whole by a single organization and tends to introduce rivalry between two competing co-operative marketing systems. What disadvantages, as well as advantages, have grown out of this situation, we shall see in later chapters.

This three-cornered contest between shippers' federation, Farm Bureau, and Farmers' Union expressed itself in only a mild form in the ratification conference owing to the overwhelming predominance of delegates of Farm Bureau sympathies or connections. President Hunt of the Iowa delegation, in response to criticism, said bluntly: "Well, the Farm Bureaus are expected to pay all the cost, so why in the deuce shouldn't they control?"; and the final acceptance of the plan "carried with a whoop."

The controversy over control, however, as between the Producers organization and independent shippers' federations on the one hand, and between the Producers system and the Farmers' Union system on the other, has not been entirely cleared up in the nine years since ratification. The part which it played in the actual development of the several Producers commission associations will appear in considerable detail in the following chapter. In Part III also we shall see how the same issues came up to plague the Federal Farm Board when it undertook to effect the organization of livestock marketing on a national basis.

# CHAPTER IX

## THE ORGANIZATION OF THE NATIONAL PRODUCERS SYSTEM

In putting the proposed plan of the Committee of Fifteen into operation, the first task was to set up Producers commission associations at the important terminals. Since the leaders of the new movement were unwilling to throw their lot in with the Farmers' Union companies already in operation, and since the Farmers' Union organization was equally unwilling to merge itself into the proposed National Livestock Producers Association, a difficult problem confronted the first board of directors. Should it proceed agressively with the building of its own system, regardless of any opposition that might develop on the part of existing terminal selling agencies? Or should it defer to the existing marketing organizations and refrain from entering any territory in which they were already established?

The National Livestock Producers Association did not answer this question as a single issue of principle. It dealt with each case separately on what it considered to be its individual merits. It proceeded vigorously to the building of its own system, but at the same time sought to avoid undue duplication of co-operative marketing agencies.

### I. EAST ST. LOUIS—THE ENTERING WEDGE

As a matter of fact, the Committee of Fifteen itself had somewhat anticipated any decision on the part of the initial board of directors of the National Livestock Producers Association by opening negotiations for the establishing of a Producers commission house on the

East St. Louis market as early as August, 1921. In so doing it was apparently animated by a desire to initiate the work of the Producers system in a market where no rival organization had as yet become established. East St. Louis was the only important stockyards market in which this was the case, although it was known that work was under way toward the establishing of a co-operative terminal commission company there at an early date. A bit of history is therefore in order.

We have already had occasion to refer to the Missouri Farmers' Association. This organization based its operations on local Farm Clubs which disposed of their product through sales facilities which it provided. It had long been the plan of the Missouri Farmers' Association to set up a terminal livestock commission agency at East St. Louis to which Farm Club members could consign their livestock for sale. This plan had been held back in 1920 until favorable legislation would permit terminal co-operative associations to pro-rate profits back to individual producers. This legislation was enacted in the spring of 1921, and plans were at once pushed forward to establish a Missouri Farmers' Association selling agency on the East St. Louis market. The Missouri Farmers' Association and most of the Farmers' Union elements in the state felt that the Committee of Fifteen was in fact a Farm Bureau enterprise and they took exception to the support both moral and financial which the whole Farm Bureau system received from governmental agencies, styling themselves the only genuine or "self-help" co-operatives. An excerpt from the *Missouri Farmer*, official organ of the Missouri Farmers' Association, voices the antagonism which was felt at the time.

It has been brought to our attention that certain of the Extension Department gentlemen are proposing on behalf

of the Farm Bureau to finance a new livestock commission company at the St. Joseph stockyards under the Livestock Exchange bill passed by the Farm Clubs during the recent legislature and thus once more we have an example of an appropriation of the Farm Clubs' "thunder" by gentlemen who never lose an opportunity to justify, on any specious pretext, the salaries they draw from the state and the government.[1]

The directors of the Missouri Farmers' Association, meeting at Jefferson City on June 15, 16, and 17, decided to organize a livestock commission agency at East St. Louis under the title "Farmers' Livestock Commission Company." On August 4 application for yardage and office room was made and an advance payment given; business began on November 16.

The Committee of Fifteen resented this independent attitude of the Missouri Farmers' Association. Obviously the new farmers' commission company could not be fitted into the marketing structure which was being set up by the Committee. By some it was argued that since the Missouri Farmers' Association had not actually established a commission association at East St. Louis previous to the drafting of the Committee of Fifteen plan, a clear statement of the Committee's intention to establish a Producers commission association at that point would force the Missouri Farmers' Association to fall in line and give its patronage to the house sponsored by the Committee of Fifteen. At all events, the Committee found itself faced with the practical decision whether to concede the market at East St. Louis to the Missouri Farmers' Association or to set up an independent agency there. It chose the latter course and on January 3, 1922 the Producers Livestock

[1] Editorial "As Usual, 'Butting In,'" May 15, 1921, p. 304.

Commission Association opened its doors for business on the National Stockyards of East St. Louis.[2]

Although at the time it appeared unfortunate to many that this first Producers commission agency should have to compete for co-operative patronage with the Farmers' Livestock Commission Company, the producing territory adjacent to the East St. Louis market had available an ample supply of livestock to support both organizations. Each exerted every effort to outstrip its rival, and both houses almost immediately sprang to positions of leadership among the commission firms on the East St. Louis market. The Producers Livestock Commission Association handled forty-four cars the first week of operation and was twelfth in rank. In the ensuing weeks a greater number of cars were handled, so that by the sixth week it had become one of the most important firms on the market.[3]

## II. THE FIRST YEAR'S DEVELOPMENTS

During the closing months of 1921 all the organizational effort of the Producers group had been

[2] F. M. Simpson of the Illinois Agricultural Association, who was loaned to the National Livestock Producers Association for the purpose of opening the East St. Louis office, in a letter of Feb. 7, 1928 states: "The Illinois Agricultural Association and the Missouri Farm Bureau Federation agreed to support the office. The Illinois people, however, were about the only ones to advance any money. As a matter of fact, this office had only a little over $1,300 when it started business. At the end of the first two weeks we were earning more than enough to pay expenses."

[3] "Right now the St. Louis situation is attracting a good deal of attention. There are two farmer firms operating there. One, the Farmers' Livestock Commission Company, established by the Farm Clubs of Missouri, was on the ground a few weeks before the other, the Producers Livestock Commission Association established by the Committee of Fifteen, started business. The men who are backing the second company claim that the

concentrated on establishing a commission house at East St. Louis. This accomplished, they allowed a period of nearly five months to elapse before any additional commission associations were put into operation. Several reasons were influential in determining this course.

In the first place, it was thought desirable to allow a period during which the heat of controversy over the Producers action at St. Louis might cool and the fears of the Farm Clubs and the Farmers' Union that the Producers intended to initiate a war of extermination might be allayed. In the second place, it was desired to continue giving close attention to the St. Louis unit in order that it should be established as promptly as possible upon a basis of unequivocal commercial success and of most satisfactory service to its patrons. Finally, this same intention of carrying out sound and conservative business policies prompted the Producers to make ample preparation prior to the establishment of any other commission associations and to consider carefully the claims and possibilities of all other markets in order that they might make the wisest selection of additional locations.

Such support as the Farmers' Union had given to the project for a national livestock marketing organization had been on the understanding that any new system which might be set up would complement the work already done under Farmers' Union auspices rather

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Farm Clubs jumped into the field after plans of the Committee of Fifteen were announced in order to use the agitation for co-operative marketing to advance the cause of their own organization. The Farm Clubs retort that they had been planning this step for some time, that the action of the Committee of Fifteen in going into a market already served by a farmers' firm shows that the new organization is seeking its own advancement and not the good of the farmer." *Wallaces' Farmer*, March 10, 1922, p. 335.

than supersede it. William Hirth, the intransigent leader of the Missouri Farmers' Association, delighted in putting the worst interpretation on the St. Louis episode, insisting that it would promptly be followed by the establishment of Producers commission companies "at such great markets as Kansas City, Omaha, Denver, and St. Joseph, where the Farmers' Union has for a number of years operated." Further, he declared that:

> The proposed new parasite firms of the Bureau will find the M. F. A. [Missouri Farmers' Association] and the Farmers' Union and the Equity of Kansas, Iowa, Illinois, and Arkansas solidly arrayed against them—and what is a thousandfold more significant is the fact that the old farm organizations of the Corn Belt have at last been driven to form an iron-clad coalition against the job-hunting Bureau leaders—and in such a contest the beginning of the end of the latter is rapidly looming into view. Mark the prediction—for today, as never before, the Bureau is facing the veteran farm organization leaders of the Corn Belt who, from this time forward, will fight their battles from behind the same breastworks. And their slogan is "Service to the farmer rather than jobs for the self-seekers." [4]

President John G. Brown of the National Livestock Producers Association, resenting the attack of the other farm organization, stated that the National Livestock Producers Association had been organized to sell livestock co-operatively, not to quarrel with other organizations. He further expressed his position by adding: "The National Livestock Producers Association is fighting no one but is being vigorously opposed. If a co-operative company is giving satisfactory service, we will not attempt to compete. If it is not,

[4] "Making a Record at the National Stockyards," *Missouri Farmer*, Jan. 1, 1922, p. 4.

we will carry out our plans to enter the field."[5] This pronunciamento by Mr. Brown did not entirely allay the fears of the other farm organizations, but it did cause them to give considerable attention to the strengthening of their own commission agencies so as not to invite attack. Gradually, when it had been demonstrated that there was sufficient patronage to support two co-operative commission associations at East St. Louis, and when it appeared that for the time being an invasion of the Farmers' Union or Equity territory was not contemplated, the intensity of the opposition died down.[6]

The subsequent establishment of Producers commission associations followed the course indicated in the statement of President Brown. On May 15 a commission agency was opened on the Indianapolis market and on June 25 another at Peoria. On June 19 a Producers house opened in Chicago. Together with

[5] *American Farm Bureau Weekly News Letter*, Jan. 12, 1922, p. 1.

Mr. Brown's statement was strengthened by a resolution adopted at the annual convention of the Kansas Farm Bureau which urged the National Livestock Producers Association to keep out of Kansas City territory. "In the spirit of co-operating with other farm organizations, we endorse the Farmers' Union commission companies of Kansas City and St. Louis and urge all farmers to consign their livestock for sale to these farmers' firms. We further instruct our president and secretary to convey to the officers of the National Livestock Producers Association our belief that the urgent necessity of having any firm organization makes it imperative that no new farmers' livestock commission firms be established in competition with present farmers' firms unless after every possible effort and concession has been made to secure their harmony and co-operation."

[6] "The farm forces working for co-operative livestock marketing at the terminals seem to be splitting into two rival groups. The National Livestock Producers Association, sponsored by the Committee of Fifteen, is being opposed by the Farmers' National Co-operative Livestock Marketing Association, an organization supported by the eight commission companies

East St. Louis, this made a system of four markets which very well covered the heavy livestock producing territory from the heart of the Corn Belt east. At Indianapolis[7] and Peoria there was no previously existing farmers' company to complicate the situation. At Chicago there was the comparatively small Farmers' Union house which had been taken over from the Equity Co-operative Exchange and reorganized for the service of both Equity and Farmers' Union groups as late as May 6, 1922. The National Livestock Producers Association decided that, in view of the size of the Chicago market and the large amount of livestock in the tributary territory which could not

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already in existence at different markets. This includes the Farmers' Union companies of Omaha, Sioux City, Denver, Kansas City, and St. Joseph, the Equity firms at Chicago and South St. Paul, and the Missouri Farm Clubs Commission Company at St. Louis.

"This division may have one of two results: It may mean chaos, a tooth and nail fight that will result in the extinction of both groups. It may mean a spirited rivalry in giving service to the farmer, a rivalry that will strengthen the efficiency of both. Livestock commission men are, of course, hoping for the first result. The farmers in both camps can hardly do anything else than work for the second." *Wallaces' Farmer*, March 10, 1922, p. 335.

This counter federation of Farmers' Union and Farm Club commission companies (see p. 116) was in fact little more than a gesture; it never functioned in any service relation to its members and soon disappeared even as a fighting body.

[7] Not only was this market located in the center of an intensive livestock producing section, but the groundwork had been well laid for the immediate success of the selling agency. Local livestock shipping associations were fairly numerous through the territory, and a certain amount of integration had taken place under the auspices of the state Farm Bureau Federation which, as we have seen, had gone so far as to maintain its own representative looking out for shippers' interests at the Indianapolis stockyards. From the beginning this Producers agency was well patronized and has since come to handle more than one-fourth of the total receipts at that market.

be expected to flow to a Farmers' Union house,[8] it was justified in establishing a parallel organization of its own on this market.

After another interval of more than four months during which no additional Producers houses were established, two were opened at Buffalo and Fort Worth respectively on November 1. In these markets also there was no competition from other farmer-owned companies, and they made a system of six commission associations whose service area was quite widely distributed and which presented a minimum of competition with previously existing co-operative agencies.

### III. THE SECOND YEAR

Six more Producers terminal commission associations were established during 1923,[9] as follows: On March 5, 1923 at Kansas City, on May 3 at Sioux Falls, on May 15 at Cleveland, on July 2 at Oklahoma City, on September 1 at Evansville, Indiana, and on October 15 at Pittsburgh.

In going into Kansas City the Producers were infringing on the territory of other farmers' organizations. The Farmers' Union was already represented on the Kansas City market and naturally claimed "that the action of the Farm Bureau shows that the Producers association and the Farm Bureau are out to rule or ruin; that they intend to absorb every other farmers' organization, regardless of whether their company is giving good service or not."[10] The

[8] Country shippers in this area had been urging the establishment of a Chicago house almost continuously since the ratification of the plan the previous November, or even since its initial announcement in August.

[9] Affiliations were also made with the Central Co-operative Association at St. Paul and with the Farmers' Union Livestock Commission at Sioux City.

[10] *Wallaces' Farmer,* March 16, 1923, p. 431.

Producers association leaders denied this charge. They claimed that the existing Farmers' Union firm was inefficient, and that the only solution was the establishment of a new agency under the auspices of the National Producers.

One final attempt at compromise was made in order to bring the combined support of the Missouri Farm Bureau, the Missouri Farmers' Association, and the Kansas Farmers' Union to the Farmers' Union commission firm. It was suggested that a board of nine directors be appointed, three to be named by each organization. The Missouri Farm Bureau rejected the plan on the ground that control would still remain with the Kansas Farmers' Union and the Missouri Farmers' Association, which were closely allied. The Farm Bureau leaders believed that these groups would insist on the retention of the existing management, which appeared to them unable to serve the producers of the district adequately.

The decision of the National Livestock Producers Association rested on a basis of practicability. The board of directors reasoned that there was a considerable amount of livestock which would be consigned to a Producers agency if one were located on the Kansas City market,[11] and the time seemed propitious to organize one, since the Farmers' Union Livestock Commission at Kansas City was at that time one of the weakest in the Farmers' Union chain.

Results from the establishment of the Producers Commission Association at Kansas City did not

[11] Seven organizations in Missouri, Kansas, Oklahoma, and Texas backed the National Livestock Producers Association at Kansas City, namely, the Missouri Farm Bureau Federation, the Missouri Livestock Shippers' Association, the Kansas Farm Bureau Federation, the Kansas Livestock Shippers' Association, the Oklahoma Livestock Shipping Association, the Texas and Southwestern Cattle Raisers' Association, and the Texas Farm Bureau Federation.

immediately measure up to expectations. This was due partly to the factional warfare between the co-operatives, but also to the difficulty of setting up an immediately efficient organization under highly competitive conditions, and to a boycott engineered by the Kansas City Livestock Exchange.[12]

The Producers Commission Association organized at Sioux Falls, South Dakota, also had jurisdictional difficulties, although the Farmers' Union was not operating on the Sioux Falls market. The latter, however, was strongly entrenched in the surrounding territory, and a certain amount of rivalry between a Producers agency at Sioux Falls and the Farmers' Union house at Sioux City would obviously develop. To forestall such difficulty, considerable attention had been given to the establishment of the association. It was realized that this territory had been a hot-bed for agitation against the Committee of Fifteen, and that it was therefore a strategic center in which to establish a representative of the Producers system. President John G. Brown and Manager F. M. Simpson held several meetings in order to unite the farmers' organizations in support of the Sioux Falls Producers.

[12] The Farmers' Union Livestock Commission and the Producers Commission Association at Kansas City filed complaint in October, 1923 with the United States Packers and Stockyards Administration against the "old line" commission firms, alleging that the commission firm members of the Kansas City Livestock Exchange had discriminated against the co-operative livestock commission agencies by refusing to sell or purchase livestock from them. It was furthermore believed that pressure had been brought upon the yard traders, the main outlet for stockers and feeders. After several months of very bitter controversy, Secretary of Agriculture Wallace, on April 19, 1924, signed an order notifying 56 commission firms and 30 traders to cease discriminating against the Producers Commission Association, the Farmers' Union Livestock Commission having withdrawn its complaint during the hearing.

At the same time an attempt was made to secure harmony in this section of the Corn Belt by bringing about an affiliation of the state Farm Bureau Federations of South Dakota and Iowa with the Nebraska Farmers' Union for the purpose of jointly operating the Farmers' Union livestock commission association at Sioux City. Farm Bureau members in Iowa and South Dakota had wished, since the ratification of the Committee of Fifteen plan in 1921, to have their own agency operating at Sioux City. This was not immediately feasible, for to set up a concern on this market would have been to break the promise of the National Livestock Producers Association to other farm organizations that it would refrain from entering territory already served by co-operative commission associations. Many hoped that a compromise could be made, and President Brown put forth his best efforts to consolidate the Producers and the Farmers' Union interests in this territory. This was done under the name "Farmers' Union and Producers Commission Association," with control exercised jointly by the Farm Bureaus of Iowa and South Dakota and the Nebraska Farmers' Union. The commission house was to support the National Livestock Producers Association at the reduced rate of 25 cents for each car of livestock handled, and the Association on its part agreed that it would not actively compete in this territory.

After five months of operation, the Nebraska Farmers' Union, being dissatisfied with the plan of joint operation, abrogated its part of the affiliation, the firm resuming operations in November, 1923 under its old name, the "Farmers' Union Livestock Commission, Sioux City, Iowa." Although it was thus found impossible to consolidate the two factions, this

temporary amalgamation resulted in securing for the Producers a strong foothold in this territory.

The three Producers associations established in the Eastern markets of Evansville, Cleveland, and Pittsburgh were not confronted by the opposition of other farm organizations already identified with terminal livestock commission associations. These agencies had the full support of well-organized state Farm Bureau Federations and so were successful from the start. The Oklahoma City Producers likewise had the nominal support of the farm organizations of the tributary region, the first board of directors representing the Co-operative Farmer Grain Dealers' Associations, the Co-operative Livestock Association of Oklahoma, the Farmers' Union of Oklahoma, the Oklahoma Grange, and the Texas and Southwestern Cattle Raisers' Association. It is of interest that the Co-operative Livestock Association of Oklahoma was organized for the express purpose of gaining support for a Producers commission association at Oklahoma City.

For a period of one year, beginning in November, 1923, the National Livestock Producers Association was also strengthened by the membership of the Central Co-operative Association of St. Paul—the strongest single terminal livestock co-operative then in operation. This organization antedated the Committee of Fifteen plan. It had achieved distinct success in its own operations and was somewhat dubious of the benefits which might be derived from membership in the National Livestock Producers Association. It felt that at all events the charge of 50 cents per car was excessive. On a reduced rate of 25 cents per car it decided to support the National for one year in the hope that some worthwhile lines of service might be developed. After one year's trial this membership was not renewed. Thus at the end of

1923, after two years of existence, the National Producers movement had member agencies actively functioning on thirteen terminal markets. They were located in a diagonal strip running from Buffalo and Pittsburgh on the northeast to Oklahoma City and Fort Worth on the southwest.

## IV. LATER DEVELOPMENTS

When the Nebraska Farmers' Union decided to operate its Sioux City house independently of the National Livestock Producers Association, the latter proceeded to set up its own commission agency there. Since Sioux Falls and Sioux City were in reality competing markets, and since receipts at Sioux Falls were declining as a result of the withdrawal of packer buyers, it was deemed advisable at the same time to close the Sioux Falls commission association.

The Sioux City Producers Commission Association opened for business on March 15, 1924. Later in 1924 a Producers commission association was incorporated at Cincinnati, but it did not begin business until February 10, 1925. This concern had the financial support of the Farm Bureau Federations of Ohio and Indiana and was well patronized from the start. On May 1, 1926 the Michigan Livestock Exchange, which had operated as a commission firm on the Detroit market since 1921, affiliated with the National Producers system. No new offices have since been established.

In addition to the Sioux Falls house, two other Producers commission associations have since been discontinued.[13] Oklahoma City suspended operations

[13] The Sioux City Producers Association opened a branch office at Sioux Falls on Sept. 1, 1925, following a revival of purchasing interest at that market, but closed again on Dec. 15, 1925 as it was impossible to operate economically. The Cleveland Producers association operated a branch at Toledo from Jan. 15 to Dec. 31, 1925, but found the venture unprofitable.

on February 1, 1926, while Fort Worth continued as a Producers house until 1928.[14] The closing of the Oklahoma City agency was attributed, in the 1926 annual report of the National Livestock Producers Association, to "lack of organization in the country, a lessened hog population in Oklahoma due to low prices, a disinclination on the part of the packing interests to support the market, and a rigorous boycott directed at the agency." [15] The Fort Worth Producers

LIVESTOCK SOLD BY NATIONAL PRODUCERS
(Initial part

| Market | 1922 | | 1923 | | 1924 | | 1925 |
|---|---|---|---|---|---|---|---|
| | Number of Head | *As Percentage of Market Receipts* | Number of Head | *As Percentage of Market Receipts* | Number of Head | *As Percentage of Market Receipts* | Number of Head |
| St. Louis...... | 481,459 | *8.5* | 849,214 | *12.5* | 1,031,384 | *16.0* | 877,603 |
| Indianapolis... | — | — | 909,016 | *25.8* | 900,195 | *25.4* | 706,745 |
| Chicago....... | — | — | 1,045,556 | *5.7* | 1,242,842 | *6.7* | 1,057,677 |
| Peoria......... | — | — | 144,250 | *23.5* | 187,884 | *20.2* | 182,207 |
| Buffalo........ | — | — | 562,511 | *15.4* | 600,598 | *17.8* | 485,234 |
| Kansas City... | — | — | — | — | 265,258 | *3.5* | 138,493 |
| Cleveland..... | — | — | — | — | 464,162 | *24.2* | 338,671 |
| Evansville..... | — | — | — | — | 92,391 | *39.6* | 91,225 |
| Pittsburgh..... | — | — | — | — | 306,990 | *6.2* | 208,143 |
| Sioux City..... | — | — | — | — | — | — | 217,985 |
| Cincinnati..... | — | — | — | — | — | — | — |
| Detroit........ | — | — | — | — | — | — | — |

[a] Figures for number of head are from *Annual Reports*, National Livestock were furnished by the Bureau of Agricultural Economics of the U. S. Department

[14] After being dropped from the Producers system, this house continued operation independently for a time with the support of the Texas and Southwestern Cattle Raisers' Association, which had been active in promoting its organization.

[15] This boycott was investigated by the Secretary of Agriculture under the authority of the Packers and Stockyards Act. He prohibited such discriminatory tactics on March 31, 1926, but the Producers agency had closed two months earlier. This made little difference, for the Secretary's order was invalidated by an injunction granted by a United States district court until May 20, 1929, when the Supreme Court of the United States sustained the order of the Secretary (*United States* vs. *American Livestock Commission Company et al.).*

agency, the Cattle Raisers' and Producers' Commission Association, was severed from the Producers chain by act of the National directors because of its "failure to subscribe to the membership conditions." This meant failure to pay its membership dues. The Fort Worth house had never been a strong member of the Producers system, and had handled a diminishing volume of livestock since 1924.

The National Producers system when it merged

COMMISSION ASSOCIATIONS, 1922-1929 [a]
years omitted)

| 1925 | 1926 | | 1927 | | 1928 | | 1929 | |
|---|---|---|---|---|---|---|---|---|
| *As Percentage of Market Receipts* | Number of Head | *As Percentage of Market Receipts* | Number of Head | *As Percentage of Market Receipts* | Number of Head | *As Percentage of Market Receipts* | Number of Head | *As Percentage of Market Receipts* |
| 15.9 | 939,079 | 16.5 | 1,043,179 | 18.2 | 1,149,767 | 19.6 | 1,066,070 | 19.0 |
| 25.6 | 644,096 | 25.4 | 664,754 | 26.1 | 823,174 | 28.2 | 854,352 | 30.0 |
| 6.7 | 887,238 | 5.7 | 1,150,386 | 7.6 | 1,261,107 | 8.0 | 1,226,497 | 8.2 |
| 23.7 | 173,489 | 20.7 | 165,603 | 23.2 | 196,457 | 23.5 | 210,896 | 25.0 |
| 17.4 | 465,124 | 17.4 | 534,249 | 18.3 | 508,045 | 19.8 | 522,952 | 22.5 |
| 2.1 | 149,054 | 2.3 | 142,000 | 2.4 | 181,387 | 2.8 | 232,815 | 3.6 |
| 22.7 | 310,022 | 22.9 | 336,988 | 23.3 | 341,218 | 24.7 | 273,449 | 21.8 |
| 45.5 | 108,933 | 47.1 | 136,702 | 38.3 | 136,328 | 33.5 | 105,006 | 32.3 |
| 5.1 | 214,026 | 5.3 | 242,899 | 6.1 | 311,934 | 8.0 | 338,421 | 9.0 |
| 4.7 | 152,210 | 3.9 | 170,552 | 4.7 | 237,484 | 5.7 | 195,947 | 4.9 |
| — | 217,985 | 12.2 | 266,398 | 13.5 | 352,094 | 16.4 | 358,369 | 26.8 |
| — | — | — | 429,718 | 33.1 | 415,728 | 34.1 | 435,080 | 34.9 |

Producers Association. Figures for market receipts, with horses and mules eliminated, of Agriculture.

into the National Livestock Marketing Association in 1930 included commission houses at St. Louis, Indianapolis, Chicago, Peoria, Buffalo, Kansas City, Cleveland, Evansville, Pittsburgh, Sioux City, Cincinnati, and Detroit. The volume of sales handled by these organizations and the percentages that these sales are of the total market receipts are shown in the table on this page and the preceding one.

The progress of the National Producers system as a whole is shown in the table on page 156.

In nearly all markets farmer-owned agencies are a much more important factor in the hog business than they are in the handling of cattle and sheep. A table similar to that presented on pages 154–55, but made

Business and Net Earnings of National Producers Commission Associations, 1922–1929 [a]

| Year | Livestock Handled | | Net Earnings |
|---|---|---|---|
| | Number | Value | |
| 1922 | 1,259,735 | $ 27,096,731 | $ 94,750 |
| 1923 | 4,906,609 | 91,568,957 | 407,917 |
| 1924 | 6,527,991 | 122,728,194 | 424,976 |
| 1925 | 4,849,718 | 126,524,313 | 213,061 |
| 1926 | 4,854,549 | 134,259,005 | 172,228 |
| 1927 | 5,547,758 | 131,014,077 | 246,648 |
| 1928 | 6,095,952 | 137,736,544 | 315,732 |
| 1929 | 6,129,691 | 149,336,720 | 312,052 |

[a] *Annual Reports*, National Livestock Producers Association.

up on the basis of hog sales only, would show the Producers house at Chicago handling about 10 per cent of all hogs, at Kansas City more than 5 per cent, and at Buffalo 26 per cent.

Likewise, in determining the ratio of a co-operative's volume of business to that of the whole market, the receipts figures are sometimes misleading due to the fact that they include livestock which is not sold on the market but which passes through or which is sold prior to its delivery on the market. This situation exists especially in the Pittsburgh, Cincinnati, and Buffalo markets. In 1928, for example, about 30 per cent of the livestock actually sold on the Pittsburgh market was handled by the Producers Commission Association; at Cincinnati 22 per cent; and at Buffalo 27 per cent.

# CHAPTER X

## AUXILIARY SERVICES OF TERMINAL COMMISSION COMPANIES

Chapters VII and IX centered their attention on those phases of commission associations which related to the selling of livestock to packers or order buyers. Only incidental mention was made of the fact that special means for disposing of stocker and feeder cattle had been devised to meet the exigencies presented by boycotts of co-operative companies on the part of traders and scalpers to whom such stock is ordinarily sold. Stocker and feeder departments have, however, assumed considerable importance, and they have become an integral part of the co-operative marketing program. They have in turn perhaps suggested and certainly been followed by the development of another important buying service—the so-called "lamb and cattle pools." Also, as the co-operative terminal agencies (or subsidiaries which they set up) got into the business of supplying stock for feeding purposes, they found it important, if not essential, to take an active part in the financing of their patrons. This has led them into the livestock loan business on a considerable scale. The present chapter will bring these developments of the terminal commission companies, both Producers and Farmers' Union associations, into our picture.[1]

[1] We go into detailed discussion here only of the major operative activities. In addition to these, the co-operative commission associations have, like other terminal marketing agencies, developed service functions in connection with transportation, such as the collection of claims and the betterment of service. They have also given some attention to accounting service by developing methods designed to assist the local

## I. STOCKER AND FEEDER DEPARTMENTS

It is generally agreed that co-operative commission associations, with few exceptions, were from the start accorded excellent treatment by both the packers and the stockyards companies. The verdict with reference to private commission firms and the livestock exchanges into which they are organized has been by no means so favorable. The co-operative commission associations cut into the "old line" commission business and not unnaturally were opposed by every means possible. Since "traders" are closely affiliated with and largely dependent upon commission companies, the influence of the latter over the former was strong and was exerted in the direction of discouraging them from dealing with the new farmer-owned companies. Specifically, this meant that many commission firms said flatly that they would have no dealings with any trader or order buyer who bought stock from any co-operative commission association. Faced with this ultimatum, the traders and order buyers proceeded to boycott the farmer companies, and the latter found it impossible to dispose on any reasonable terms of stock which was not suitable for immediate slaughter. This was an abuse to which the Packers and Stockyards Administration early addressed itself [2] and which it has now practically

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manager in his work. For a discussion of these more or less technical overhead services, see Randell, C. G., "Co-operative Marketing of Livestock by Terminal Associations," U. S. Department of Agriculture *Technical Bulletin* No. 57, p. 924. The terminal co-operatives have also developed a considerable field service for the purpose of maintaining helpful relations with the producer, and the National Livestock Producers Association has recently inaugurated a research department. The significance of these latter activities will be discussed somewhat fully in Chaps. XIII and XIV.

[2] "With the establishment of these co-operative agencies at some of the principal markets there appeared to be a feeling

broken up.[3] However, the Packers and Stockyards Administration did not get into active operation until well along in 1922, whereas some of the Equity and Farmers' Union associations had been established as early as 1916, and even the first of the Producers companies on January 2, 1922.

These pioneer associations therefore developed the "stocker and feeder department" as a device for meeting the boycott by traders and order buyers. Apparently it was taken up first by the Equity Commission Association of South St. Paul late in 1917 and by the Farmers' Union Commission of Omaha some six months later. The Omaha company at first experienced difficulty in selling even its hogs in the Omaha market since it was denied admission to the livestock exchange, was boycotted by the speculators and order buyers, and was patronized by only a few packers on that market. After a time the farmer company

on the part of some of the old line agencies that they were justified in fighting this form of competition through the practice of boycotting. Whereupon the Administration found it necessary to take action and bring about an understanding that open-market principles must prevail in every respect at public markets." "Report of the Secretary," U. S. Department of Agriculture *Yearbook*, 1923, p. 54.

The importance of such legislation as the Packers and Stockyards Act is attested by the fact that, when the Co-operative Livestock Commission Company brought suit against the Kansas City Traders' Exchange because of the boycott which threatened its existence, the award of $58,500 in favor of the co-operative which was made in June, 1909 was later reversed by the Supreme Court of Missouri. See Randell, U. S. Department of Agriculture *Technical Bulletin* No. 57, p. 8.

[3] The authority of the Packers and Stockyards Administration to stop boycotting practices was questioned in the case of the boycott which was directed against the Kansas City Producers Commission Association early in 1923. The Secretary of Agriculture under authority vested in him by the Packers and Stockyards Act, and after an examination which was carried on by the Packers and Stockyards Administration, ordered the marketing agencies which were found guilty to cease and desist

secured a market with Eastern packers for any hogs which it could not sell in Omaha and gradually built up an outlet by shipping or by sale to local killers which kept pace with its growing business. On cattle, however, the matter was very difficult, and this was equally true of the Equity at St. Paul, whose cattle business was relatively more important.

The packer ordinarily stands ready to purchase all grain-finished or grass-fed cattle at prices in accordance with their killing quality. There is, however, a constant accumulation of stock, sometimes in carlots but frequently in small bunches culled out from larger lots, which can most profitably be disposed of by sale back to the country as "stockers" for longer time feeding or as "feeders" taken for a comparatively short-time finishing on grain. Ordinarily the yard trader or speculator bids for such stock in competition

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from discriminating against the Producers Commission Association. A petition to a district court for an interlocutory injunction to restrain the enforcement of the Secretary's order was refused on the grounds that the Secretary of Agriculture "was acting within the powers lawfully granted him." (For discussion of this case see *Report* of the Packers and Stockyards Administration, Sept. 10, 1924, p. 22.)

In the so-called "Oklahoma Boycott Case," which arose about a year later, the power of the Secretary of Agriculture under the present stockyards act was completely established, since the case finally went to the Supreme Court of the United States. In this case an injunction against the Secretary's order to the marketing agencies to cease and desist from boycotting the Oklahoma Producers Commission Association and others was granted by a district court. The case was carried to the Supreme Court of the United States and on May 20, 1929 the order of the Secretary was sustained. Unfortunately the Producers Commission Association at Oklahoma City was compelled to close operations during the course of the proceeding so that the decision was of no practical significance to the Producers concern of Oklahoma City. It is, however, looked upon by the officials of the Bureau of Animal Industry, which now administers the law, as of great significance.

with the slaughterer, basing his prices upon the strength of the demand in feeding sections for this class of stock. When this outlet was denied to the farmer companies, they decided to perform the function themselves, thus not only completing their selling service to such of their members as consigned this class of stock to them for sale, but likewise building up a buying service to those of their members who wished to supply themselves with stocker and feeder cattle.

The practice was comparatively simple. It was important that all animals be disposed of promptly so that account of sales could be made to the shipper. In order to do this, any salesman of the co-operative commission association having stock for which he could not get satisfactory bids from packers or other order buyers asked the manager of the stocker and feeder department for an appraisal. The salesman proceeded then to try for a better price outside, whereas the manager of the stocker and feeder department put his figure low in order to make as good a transaction as possible for his patron, the buyer of feeders. If the salesman found that he could not get a better price from any other buyer, he would have the stock weighed up to the stocker and feeder department, whose manager then proceeded to sort the animals into such lots as he could handle most advantageously in meeting the demands of feeders or any order buyer who might see fit to patronize the farmers' stocker and feeder department. Obviously this way of handling the business tended to keep charges down to a minimum. It was intended that this department should simply "break even," charging no buying commission to the patrons who purchased through it, and paying to the shipper the maximum

price which could be realized from his stock through re-sale for feeding purposes.[4]

This feature of the business has tended to be less vital to the success of co-operative commission activities since the coming of the Packers and Stockyards Administration, and indeed has been abandoned by the Farmers' Union of Omaha and some others. The Central Co-operative Association of St. Paul included it in its plan of operation, and still finds it convenient for the handling of odd lots of stock. It was made one of the four major features of the Committee of Fifteen plan, and stocker and feeder departments were an active part of most of the Producers houses which the Committee was instrumental in establishing. They were set up as separately organized subsidiary companies, although co-operative commission houses outside the Producers organization generally have handled them informally as a nominally separate "department" of their general business.

It was part of the plan of the Committee of Fifteen that the Producers system should furnish a complete service for stockmen. Hence it has been seeking not merely to develop its buying service for patrons at a given market, but also to direct the buying power of its members in one market to any place within the whole Producers organization where their demand can be supplied to the best advantage. For example, a form letter of the Indianapolis Producers Commission Association, dated August 13, 1923, contains the following:

> One of the purposes in organizing the Producers Commission Association was to bring to feeders of livestock, at actual cost, animals in better condition and of greater

[4] Beginning in 1923 the regular buying commission of $15 per car was charged by the Producers houses at Chicago, Kansas City, and other Western markets "because of the expense involved."

uniformity, better quality and of a kind, that would do well in the feed-lot. In order to do this, it is necessary that we concentrate orders for as many cattle and sheep as possible. If we can get a large number of orders, undoubtedly we are going to be able to bring a better class of cattle and sheep to this market. With offices in Chicago, St. Louis, Kansas City, Fort Worth, Texas, and other Western markets, we have a field offering the greatest opportunity for securing just what you want and can depend on.

Enclosed is an order blank which we would ask you to fill out at once and return to us, stating what you want and giving us authority to buy it for you. We are sure that we can get something that will satisfy you in every way. We wish to emphasize that WE MAKE NO CHARGE FOR BUYING STOCKER AND FEEDER ANIMALS at Indianapolis or St. Louis. A REASONABLE CHARGE is made at Chicago, Kansas City, and our other Western offices because of the expense involved, but a pro-rata refund is made just as in the case of selling commissions. It may be impossible to get the kind of stock you want on the Indianapolis market; therefore we would suggest that you give us authority to fill your order on one of the other markets. Please bear in mind that it may mean some additional freight. We will be glad to quote you freight rates from any other market to your station.

This sort of effort has been particularly directed toward securing orders for feeders through Producers channels for execution on the Kansas City market, which is the greatest feeder market in the country.[5] The Eastern States Company (see page 199) from the beginning of its operations in 1924 procured feeder cattle on Western markets, particularly St. Paul, for Ohio livestock producers, thus acting as an order buying agency for feeder cattle for producers as well as finished cattle and hogs for packers. It would appear that this order buying of feeders by Producers

[5] Almost 1,000 carloads of livestock were purchased through the Kansas City Producers stocker and feeder buying department in 1927.

commission associations and the Eastern States Company paved the way for a comprehensive order buying service—the National Order Buying Company—which will be discussed in the next chapter. More directly, however, it has led into the formation of buying pools.

### II. PRODUCERS LAMB AND CATTLE POOLS

It has long been felt that, under the traditional method of livestock marketing, the stockmen of the range country have put their product on the established stocker and feeder markets with insufficient regard to conditions of demand on these markets. This has resulted in frequent congestion of supplies and delay in the movement of stock through the yard, thus increasing the hazard of exposure to disease and causing handling charges to pile up unduly. Perhaps worst of all, this situation tends to cause stock to go "stale," thus imposing on the feeder the burden of bringing it back after a delay of days or weeks to a thrifty condition and a proper rate of gain.

A few private agencies have addressed themselves to the problem of providing a more direct connection between the grower of young stock, chiefly in the range country, and the producer of finished cattle or lambs in the principal grain-feeding areas. Notable among these efforts was that of the Highland Hereford Association of Texas, which sold cattle by auction at various points in the feeder territory. Some large range producers had sold stock on a mail order basis, depending on the quality of their cattle and the fairness of their dealings as a means of maintaining satisfactory relations with the feeders. Just after the World War a group of men at Des Moines, Iowa, who had been interested in the cattle loan business, developed a new enterprise which combined financing with direct purchase of stock of known quality on the ranges.

The idea of direct buying from the breeder was not altogether novel in Iowa, since some of the larger feeders had bought their stock direct from the ranges for many years. In order to tie this work into that of the Farm Bureau, and in the hope of extending the service also to smaller feeders, the Iowa Farm Bureau Federation in the fall of 1922 entered the field and employed a well-known stockman to make such purchases for Iowa Farm Bureau members. A similar venture had been undertaken by the Ohio Farm Bureau the preceding year. Here, too, direct buying was hardly more than a modification of a previously existing system since Ohio feeders had been more or less accustomed to pool the orders of a group in the hands of a single individual who would be sent, generally to one of the important feeder markets, to purchase feeder stock to be distributed among the members of the group.

These operations of the Ohio and Iowa Farm Bureaus were carried on during a very difficult period but with more or less satisfaction to those who participated. By 1924 the Producers commission associations, organized under the plan of the Committee of Fifteen, were in active operation, and subsequent direct buying of feeders on the range passed over into their hands, while the assembling of orders from farmers so far as Ohio was concerned was taken over by the Eastern States Company.

The first undertaking of Producers agencies was in the form of a lamb pool. It was organized by the Producers Commission Associations of East St. Louis and Chicago in the fall of 1925. Sixty-eight thousand lambs were purchased in the range country and distributed to feeders in the Mid-West. The same year a cattle pool was organized by the Kansas City Producers Commission Association with the support

of the Producers agencies in other cities. Thirty-four hundred head of cattle were handled.

The operations of this first year were reasonably satisfactory to both buyers and sellers, but it was felt that a broader basis of support should be provided. Hence in 1926 the feeder buying operations were brought under the direction of the National Livestock Producers Association. That season they were operated by the National as a part of the general activities without any special or separate organization, but in April, 1927 a subsidiary was set up under the name "National Producers Feeder Pool." It had an authorized capital stock of $50,000, control being vested in the common stock, which was owned by terminal commission associations or other livestock organizations.

The National Producers lamb and cattle pools have made it possible for any farmer to obtain either lambs or cattle from the range for fattening by putting in an order which specifies the character of the stock required and the time at which delivery is preferred.[6] The representative of the pool, with the information secured through these advance orders, goes into the range territory and contracts for the sale and delivery of lambs and cattle. When the animals are ready for shipment, they are sorted in the range territory so that shipment may be made direct from the range to the feed-lot of the producer. In order that feeders shall not find unsatisfactory animals included in the stock received by them, inferior individuals are culled out and sent to the terminal markets to be sold for slaughter. Such terminal sales include overweight lambs and cattle which are poor in quality or condition.

[6] Although the National Livestock Producers Association has now been superseded by the National Livestock Marketing Association, the operation of feeder pools continues substantially unchanged.

Likewise, it is not possible to match the volume of purchases perfectly with feeder orders. Hence some animals are directed to the stockyards markets merely because they are in excess of buying orders.

In the early days of the feeder pools, and to some extent still, difficulty has been encountered in providing stock of desired uniformity. However, efforts are being directed toward "persuading the lamb growers of the West to sell their product sorted, furnishing on contract only lambs of desired weight and flesh for feeding purposes and shipping the [fat lambs] to market." [7]

The procedure followed by the farmer who participates in this pool buying is shown in detail in the 1926 lamb pool order blank:

Producers Commission Association,....................

Please buy for me................decks of feeder lambs subject to the terms of the Producers Lamb Pool, which are as follows:

No orders accepted for less than a double deck. (A double deck will contain approximately 275 head.) Each order must be accompanied by a deposit of $1.00 per head, which will be credited to purchase price.

All orders accepted subject to ability of pool to fill same within range of prices quoted, which will be f.o.b. loading point.

Purchaser to pay freight to destination, charges at feeding stations en route and commission of $15 per double deck. All shipments will be protected against loss and shortage at a cost of 5 cents per head, to be paid by the purchaser.

Orders to be pooled at intervals; such intervals to be contingent upon volume of orders received and changes in price conditions.

Consideration will be given to specified desired weights as far as practical and possible; acceptance of such an

[7] Stewart, C. A., "Our Sheepmen and the Lamb Pool," *The National Livestock Producer*, August, 1926, p. 12.

order, however, does not bind the pool to deliver lambs of such specified weight.

Orders will be filled in rotation as filed and delivery made at the time specified as nearly as practical.

Producers terminal with which order is filled will draw upon purchaser for total amount of pool price and charges as soon as lambs are loaded.

Ship same to.......................................
......................County ....................State
via ........................................Railroad
When loaded draw on............................Bank
Town.........................................State
Draft will be honored as soon as received by the bank.
Check for $.......... is enclosed with order.

Signed...............................
Address.............................

Date ...............................................

If you expect to use the Producers Credit Corporation please apply for application.

The cattle pool was handled in a similar way except that the prospective buyer specified what class of feeder stock he required. A feeder might indicate his preference for steer calves, steer yearlings, heifer calves, heifer yearlings, or mixed calves, and whether Herefords or Shorthorns, in whatever class. It was required that each feeder cattle order be accompanied by a deposit of $100. The National Producers system absorbed any loss and shortage which might arise in the shipment similar to the loss and shortage which is covered by a charge of 5 cents per head of lambs paid by the purchaser.

A special provision applied to the weighing of feeder cattle. "Where scales are available," the contract stated, "cattle will be weighed and shrunk 3 per cent and, where scales are not available, cattle will be weighed at the nearest point in transit." Another provision stated "if feed in transit privileges are desired, please specify same." No mention was made of the Producers Credit Corporation.

The number of cattle and lambs handled in the pools during the years 1926-1929 is shown below:

| Year | Lambs | Cattle |
|---|---|---|
| 1926 | 145,032 | 11,200 |
| 1927 | 68,667 | 15,474 |
| 1928 | 82,504 | 22,102 |
| 1929 | 54,891 | 9,842 |

It is of interest to note that in 1928 about 10 per cent of the lambs purchased by the pool were consigned to market or sold locally as against 26 per cent so disposed of in 1929. As for cattle, 17 per cent were sold on the range or on the open market in 1928 and 25 per cent in 1929.[8] The lambs have largely been distributed to feeders in Illinois, Iowa, Ohio, Michigan, and Missouri, and the cattle to feeders in Illinois, Ohio, Iowa, and Missouri.

## III. AGENCIES FOR FINANCING

In our discussion of the feeder pools we have had occasion to mention their extension of credit to farmers who wish to purchase stock for feeding. The work of financing the feeders is rapidly developing into one of the major auxiliary services of the co-operative com-

[8] The question may be raised as to how far the co-operative livestock marketing system has been drawn into speculative operations through its pool buying. Its representatives, in seeking to assure an adequate supply of stock for its patrons and to make advantageous buying arrangements, have at times got themselves considerably over-stocked or committed to prices which were not justified by the subsequent course of market quotations. Some severe losses have been incurred in this manner.

It is a primary tenet of co-operation that speculative buying or selling will not be indulged in. If this rule is to be observed and these losses from speculative operations avoided, one of two things will be necessary. Either feeders will have to put their buying operations on a more thoroughgoing co-operative basis and make their commitments a sufficient time in advance so

mission agencies and of the National Livestock Producers Association. This was in fact inevitable if the co-operative association were to be in a strong competitive position as compared with the "old line" commission firms. It has long been a common practice for livestock commission men to provide a certain amount of financing for their clients. The object of such business has been "to control the business of the borrower" and get the commission from the sale of the finished stock.[9] That is, it has been customary for farmers to consign to the commission firm which loaned them funds for feeding operations. Obviously the co-operatives have found themselves handicapped in building up their clientele as long as farmers felt tied to other commission firms through such credit connections.

To meet this situation the Producers Livestock Commission Association of East St. Louis and the Chicago Producers Commission Association decided as early as April, 1924 to set up a Producers livestock credit corporation which would operate in conjunction with the Federal Intermediate Credit system. The services of this establishment were available to any member of

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that range buying can be conducted economically and to the best advantage; or range producers will have to be brought more fully within the scope of co-operative organization so that they will regularly turn their marketable stock into a co-operative selling channel, agreeing to take prices justified by the condition of the market at the time of delivery rather than attempting to derive the maximum bargaining advantage from price changes from week to week. Probably both of these conditions will have to be met at least in some degree if feeder pools are to be put on a really sound and successful basis. The zeal to develop this feeder service before the necessary clientele had been genuinely converted to co-operative practices has brought some loss of funds and of confidence. This, however, need not discredit the system itself (see p. 329).

[9] Larmer, Forrest M., *Financing the Livestock Industry*, p. 69.

the National Livestock Producers Association.[10] Early in 1929 this livestock loan company, as the Producers Livestock Credit Corporation, was incorporated with a capitalization of $500,000 to serve the entire National Livestock Producers Association system, stock being sold only to co-operative associations which were members of the National Producers. The paid-up capitalization as of June 30, 1929 was $76,000, subscribed primarily by the Chicago and St. Louis Producers agencies from reserve funds which they had accumulated, later joined by the five Eastern Producers agencies—Buffalo, Pittsburgh, Cleveland, Cincinnati, and Indianapolis.

The Producers Livestock Credit Corporation operates through the Federal Intermediate Credit Bank of St. Louis, and its primary function is to finance feeding operations of Producers patrons. About two-thirds of these transactions grow out of purchases of feeders from Producers agencies, complete title not being passed to the farmer. In the other third of the cases, the farmer who has supplied himself with stock for feeding comes to the credit corporation for such a loan as he needs to complete the operation. In such instances the loan is likely to represent a smaller percentage of the value of the stock. Both classes of borrowers are expected to market their finished animals through a Producers agency and liquidate the loan out of the proceeds of the sale.

To obtain a loan a stockman files an application either with the credit corporation or with a Producers commission agency and submits a financial statement.

[10] The Eastern States Company arranged loans for Ohio stockmen to the extent of $207,000 prior to the merging of its financial work with the Producers Livestock Credit Association in 1929.

After an inspection report on the livestock upon which the loan is to be made has been approved, this application is passed upon by the credit corporation. In case the application is accepted the borrower gives his note and mortgage to the credit corporation covering the stock, the feed which he expects to give them, and, where deemed necessary, other collateral security.[11] The Federal Intermediate Credit Bank has authorized the Producers stocker and feeder buyers, and in some cases the field men, to serve as official appraisers. Inspections are made without expense to the borrower in case the livestock is purchased on the terminal market or where field men are available; otherwise the producer must pay the cost of the service.

Loans on cattle are customarily made for a term of nine months and on sheep for six months, although these loans may be renewed, usually for an additional period of three months. The borrower may pay the note at any time before maturity. The maximum loan to any borrower at one time is fixed (with few exceptions) at $10,000; the average size of loan for the five years of operation has been about $2,500. Cattle loans, which amount to almost 90 per cent of the business, may be extended to the full value of the stock, although in general they are limited to 80 per cent of the purchase price;[12] but loans on sheep and lambs are made only up to 75 per cent of the full value. Since the value of the collateral increases during the feeding period, the margin of safety is reasonably wide. The losses have been negligible; the Chicago and St. Louis agencies each failed to collect one small loan. Since these losses are chargeable to the commission company

[11] All loans are guaranteed by the Producers commission house with which the paper originates.

[12] That is, on feeding loans. On grazing loans a wider margin is required; the loan will run from 75 down to perhaps 40 per cent of the purchase price.

through which the loan has been secured, no loss has been suffered by the finance corporation.

The interest rates charged by the credit corporation compare favorably with the rate on money obtainable from other sources. It was formerly necessary for the borrower to deposit 10 per cent of the amount of the loan in a surplus fund so that in reality the rate of interest, which was customary 6 per cent, was actually increased because only 90 per cent of the money borrowed was secured. The 10 per cent was deducted in order to enable the credit corporation to do business on a small capital. Since the rules of the Intermediate Credit Banks permitted loans to be extended to ten times the capital and surplus of the credit corporation, each loan, through the deduction of 10 per cent, was made practically self-supporting. This system, which hindered the expansion of the service, was discarded in 1926. Since that time, no deduction has been made from the face of the loan, and the interest rate has become in fact as well as in name 6 per cent.[13]

In the five years of operation to July, 1929, over one and a half million dollars have been loaned through the Producers Livestock Credit Corporation. Over 75 per cent of the loans of this concern were to Illinois and Missouri feeders, and over 95 per cent to the feeders of the four states Illinois, Missouri, Iowa, and Indiana. On March 12, 1929 there were loans to the amount of $373,868 outstanding, though the peak of business during the preceding winter had exceeded $600,000. These loans were made through Producers commission associations at Chicago, St. Louis, and Kansas City in the main. Small amounts were taken by the agencies at Sioux City, Peoria, and Evansville.

[13] See *American Co-operation*, 1927, p. 672.
There have been brief periods during which the rate has run to 6.5 or 7 per cent.

The Farmers' Union commission firms at St. Joseph and Omaha have likewise provided loan facilities for their members. The Farmers' Union Credit Association of St. Joseph was organized in November, 1924. This corporation is owned by the St. Joseph Farmers' Union Livestock Commission and managed by the same board of directors. Its operations are similar to those just described, loans being discounted through the Intermediate Credit Bank of St. Louis. The volume of business has grown from about $100,000 in the first year to $344,900 in 1929 and $365,257 in the first eleven months of 1930. The Omaha Farmers' Union Livestock Commission Credit Company was organized in July, 1926. It had loans to the amount of $274,692 discounted with the Intermediate Credit Bank of Omaha on December 31, 1929, besides more than $20,000 held in its own portfolio. Notes are rediscounted with the Intermediate Credit Bank of Omaha and the producer is charged a rate about 1.5 per cent above that paid to the Bank.

The Central Co-operative Association of St. Paul organized its own livestock loan department in the summer of 1928. It employs the funds of the Central Co-operative Association directly without the intervention of an agricultural credit association. When outside funds are needed, its loans are discounted through St. Paul banks. The terms of these loans range from six months to one year. Loans made during the past year amounted to approximately $100,000. Interest to the borrower now (December, 1930) runs at 6 per cent, the notes being discounted at the bank at 4 per cent. The Central Co-operative Association has "been loaning around 75 per cent of the purchase price and demanding 25 per cent in cash or its equivalent in other collateral. We [the Central] also demand a mortgage on the feed which is to be fed to the livestock

covered by the loan so we can assure ourselves that they are going to be finished before they are sent back on to the market. The amount we loan any one individual depends entirely upon the kind of a statement which he can furnish." [14]

[14] Letter of N. K. Carnes, manager, Central Commission Association, Dec. 12, 1930.

# CHAPTER XI

## DIRECT MARKETING AND THE MID-WEST CO-OPERATIVES

The whole co-operative terminal commission movement has accepted and made itself a part of the traditionally dominant method of marketing livestock in the United States. Since the growth of Cincinnati as a packing center prior to the Civil War, the consignment of stock to the public livestock market for sale by a commission agency has been the distinctive pattern of American livestock marketing. To be sure, there has always been a certain amount of local selling direct to smaller packing houses and butchers scattered through the producing territory and a limited amount of long distance direct buying through what were known as re-load stations or concentration yards at a few points in the Middle West. But the total of marketings by these methods was of minor importance.

Even before the World War the packing industry had shown some movement toward decentralization. The war tended somewhat to strengthen local packers at the expense of the so-called "national" packers; and the coming of the motor truck and the extension of good roads have considerably altered the traditional outlines of the livestock marketing system. The advent of direct selling methods in considerable variety has raised a critical issue in the problem of livestock marketing. The present chapter will be devoted to a rather detailed analysis of these developments, especially as they have a bearing on the co-operative movement.

## I. METHODS OF DIRECT BUYING

What is referred to as "direct buying" relates chiefly to hog marketing and presents four reasonably distinguishable types. They include the operations of (1) local packing plants, (2) terminal plants not located on public stockyards, (3) concentration stations, and (4) packer buyers at country stations.

The first type of direct buying of livestock is that employed by the local packer whose plant generally, though not always, is comparatively small and situated in a city which does not have a public stockyards. Such packers have been in the habit of receiving stock direct from producers in the country or from local livestock buyers who might or might not be designated as representatives of particular packers at local shipping points.[1] In the old days such receipts by the packer at his plant came chiefly by rail, with only a small amount hauled in from nearby territory with teams. As the use of the motor truck has increased the volume and enlarged the radius of local hauling, there has been a tendency for the relative importance of rail receipts to decline and for the packer to make his purchases in larger measure direct from the producer without the intervention of even a local buyer.

For a local packing plant to be able to supply its needs fully from direct purchases, it must be located in a region of heavy production and have favorable transportation facilities. Direct buying by local packers has accordingly found its greatest vogue in the Mid-Western states from Ohio to Minnesota, with its maximum development in the state of Iowa.[2]

Each packer establishes his own practice for the handling of stock in his receiving yards. Ordinarily the local packer gives stock all the water which the

[1] As has already been explained in Chap. VI.
[2] See pp. 187–96 and the table on p. 186.

animals want but no grain feed. This tends to make weights compare unfavorably with those at a terminal market where a grain fill is universally given. Some local packers follow the practice of making a flat addition of a certain number of hundredweight per car in lieu of a grain fill.

As to the mode of settlement for stock bought direct by local packers, practices differ. In some cases quotation cards are sent out by mail indicating a range of prices that will govern until further notice. In the main, however, the shipper secures an actual bid from the packer's buyer over the telephone before shipping his stock. It then devolves upon the shipper to see that the quality of his shipment corresponds to the representations he has made, and upon the packer's buyer to satisfy the shipper that his settlement corresponds to the bid made over the telephone. The weights used for settlement are those taken at the plant over the packer's scales without supervision by any government agency, and the grading and dockage are entirely within the discretion of the packer's buyer. His handling of all these matters, however, must be sufficiently satisfactory to keep an adequate flow of stock moving to his plant in competition with other local markets and such terminal outlets as are available. If he cannot fill his requirements on terms satisfactory both to himself and to the shipper, he must resort to some more or less distant stockyards market where he can purchase on the open market either through his own salaried employees or through order buyers.

The recent growth of this form of direct marketing is indicated by the figures given in the table on page 179, which cover thirteen of the principal interior packers who have operated throughout the period. New interior packers have sprung up in recent years,

so that the comparisons given do not entirely record the increase in this kind of direct marketing. They do, however, reflect the growth which has been enjoyed by these particular companies as well as the change in methods of buying.[3]

A second method of direct buying is that of the terminal packer whose plant is not located in direct contact with the stockyards. For many years the Omaha Packing Company of Chicago (since 1912 a

HOGS SOLD DIRECT TO THIRTEEN PRINCIPAL INTERIOR PACKERS, 1920–1929 [a]

| Year | Number | Relatives (1920 taken as 100) |
|---|---|---|
| 1920 | 3,032,118 | 100.0 |
| 1921 | 3,752,362 | 123.8 |
| 1922 | 4,551,871 | 150.1 |
| 1923 | 5,931,325 | 195.6 |
| 1924 | 6,341,198 | 209.1 |
| 1925 | 5,475,335 | 180.6 |
| 1926 | 5,928,509 | 195.5 |
| 1927 | 6,425,096 | 211.9 |
| 1928 | 6,951,982 | 229.3 |
| 1929 | 7,248,043 | 239.0 |

[a] Figures were furnished by the Bureau of Agricultural Economics of the U. S. Department of Agriculture.

subsidiary of Swift and Company) has supplied its needs by buying direct from the country in essentially the same manner as do the country packers. This plant is located more than a mile away from the public stockyards at Chicago and depends for its receipts on

[3] "In interviewing nine packers within the state of Iowa and four additional plants which are so situated as to draw a high percentage of the hogs bought from Iowa territory, it was found that ten of the thirteen packers buy more than 95 per cent of their hogs direct. Of this number, seven buy 98 to 100 per cent of their hogs direct." Derrick, B. B., "Some Phases of Hog Marketing in Iowa," U. S. Department of Agriculture *Circular* (in press).

stock trucked in from the nearby territory or consigned by rail from individual producers, local livestock buyers, and co-operative shipping associations in the territory farther west. The company does not designate local buyers as its representatives at country shipping points but seeks to maintain the volume of its receipts by satisfactory treatment and the occasional personal contact of a field representative.

A somewhat similar practice is followed by the St. Louis Dressed Beef Company (Swift), the Krey Packing Company, St. Louis, and the St. Louis Independent Packing Company. At Kansas City the Fowler Packing Company, located about a mile from the public stockyards (in Kansas), was unable to persuade the stockyards (in 1903) to construct runways to its plant, and therefore set up independent buying yards—the now famous Mistletoe Yards. The Fowler plant was subsequently acquired by Armour and Company and, in case receipts at the Mistletoe Yards are more than sufficient for the needs of the Fowler plant, stock bought at the Mistletoe Yards is diverted to the Armour plant.

A small part of the stock coming to the Mistletoe Yards consists of "drive-ins" from the nearby territory, but the bulk of the receipts is secured by rail from exclusive shippers designated by the Fowler Packing Company at shipping points within a radius of about three hundred miles to the west and a much narrower territory extending into western and central Missouri. There has been considerable increase in recent years of purchases from co-operative shipping associations.

Still more important from the standpoint of co-operatives, however, is the direct buying of the Cudahy plant at Newport just across the river from South St. Paul. This was originally erected in 1915 as a

co-operative enterprise—the Farmers' Terminal Company—but after a period of troubled existence passed into the hands of the Cudahy Packing Company (1926). Since this plant was located a long way from the public stockyards, it was necessary that stock be procured by direct buying. Furthermore, the producer owners had made it a condition of sale that the Cudahy Packing Company should afford an outlet for their stock. This arrangement has proved successful in practice, and the plant continues to operate entirely on co-operative shipments. Stock is priced, graded, weighed, and docked by the packer's employees.

This is the only example of a packing plant which obtains all its supplies direct from co-operative shipping associations, and it is also the first time that a group of shipping associations (about one hundred in number)[4] has adopted the idea of direct sale to one packing plant as its regular outlet. The volume of receipts in 1928 was nearly double that of 1926 (the first full year of operation); in 1929 it declined some 6 per cent.

Direct buying by packers located at terminals but not in contact with public stockyards involves about 2,000,000 hogs annually, and showed no clear tendency to increase prior to 1928. Since then there has been a sharp rise.

A third method of direct buying is that which is known as "concentration point" buying. A certain number of packing plants located to the east of the region of heavy livestock production years ago developed the method of direct buying through local purchasing agencies—"concentration points" or "reload stations." For example, several long-established packing plants in the New England states, retaining

[4] Not necessarily the same individual associations at all times. Many are constant patrons; some come and go.

their old names though operated as subsidiaries by Swift and Company, procure the bulk of their raw material through the maintenance of concentration points along the Mississippi River and at Valley Junction, Iowa. A few other packers subsequently established concentration points in the heart of the Corn Belt, or patronized such agencies operated by independent proprietors who sold through whatever packer outlet seemed at the moment to be most advantageous. The significant features of the practice are that stock so handled does not appear at any public stockyards market and that its weight, grade, dockage, and price are determined by a salaried employee of the distant packer.[5]

To be practicable a concentration point must be located where several branch or intersecting railway lines converge and must secure proportional through billing privileges from the railroads with the right of unloading, watering stock, and re-loading it in such manner as to get maximum car weights, frequently including the use of double-deck cars. This system assures the buyer that the stock will be put in best condition for its long journey to the Eastern packing plant, and in some cases has the added benefit of sorting the stock in accordance with the preference of the several markets. In general, however, the re-load station manager simply purchases those grades for which the packer has a preference and allows other classes of stock to go to some other market. The volume of business handled through re-load stations of this type accounts for about 1,000,000 hogs annually and has not varied to any appreciable degree during the last decade.

[5] Or by a private trader in the case of the independent re-load station.

There has, however, during the last few years been a rather aggressive development of country buying by both local and terminal packers in the Mid-West. During the World War there was some tendency for local and independent packers to increase their business at the expense of the national packers who had to carry the chief responsibility for military provisioning. Subsequently these smaller packers have been anxious to retain whatever place they had secured for themselves in the domestic market while the national packers have taken vigorous steps to regain the business which had slipped away from them as a result of war disturbances. This, taken with the tendency which runs back some years for the packing industry and livestock marketing to decentralize from the few large centers like Chicago and Kansas City, has led to keen competition for stock, particularly in years of lighter production. Most large packers have abandoned the more or less passive attitude of depending upon the receipts which come to their adjacent public stockyards market or which are consigned to their country plants, and in its place have adopted an active policy of establishing buying agencies of their own in the midst of regions of heavy production. They found this necessary especially at times of light marketings if they were to secure the desired volume of hogs of the quality which they required. The policy has given rise to the establishment of an increasing number of country buying stations operated on lines essentially similar to those which we have discussed in connection with the older re-load stations but representing an aggressive development of country buying by Mid-Western packers rather than the old established system by which certain packers in the far East or at non-stockyards points farther west have been accustomed to secure their supplies.

Hog Receipts at Chicago, 1928–1930 [a]

| Month | Consigned | | Purchased Outside by Packers | |
|---|---|---|---|---|
| | Direct from Country | Re-consigned from Other Markets | In Country | On Other Markets |
| 1928: | | | | |
| January | 1,016,246 | 49,235 | [b] | 37,343 [c] |
| February | 939,839 | 80,322 | [b] | 47,526 [c] |
| March | 775,745 | 16,952 | 67,828 | 31,235 |
| April | 509,121 | 16,172 | 27,529 | 16,403 |
| May | 525,063 | 15,276 | 47,620 | 23,444 |
| June | 528,012 | 24,545 | 51,995 | 46,141 |
| July | 482,104 | 16,316 | 38,586 | 19,322 |
| August | 370,937 | 17,577 | 23,388 | 11,597 |
| September | 316,585 | 17,063 | 32,917 | 15,292 |
| October | 571,913 | 9,459 | 31,363 | 11,626 |
| November | 588.929 | 14,019 | 61,977 | 29,771 |
| December | 726,594 | 16,672 | 155,235 | 49,267 |
| 1929: | | | | |
| January | 823,440 | 17,832 | 219,514 | 41,487 |
| February | 618,941 | 22,001 | 180,150 | 24,930 |
| March | 420,652 | 22,704 | 116,383 | 25,820 |
| April | 409,837 | 8,383 | 111,019 | 26,337 |
| May | 369,347 | 10,174 | 122,522 | 34,791 |
| June | 377,991 | 4,983 | 133,864 | 35,741 |
| July | 438,034 | 8,569 | 163,455 | 39,084 |
| August | 373,756 | 9,932 | 105,371 | 37,475 |
| September | 391,488 | 10,794 | 104,115 | 28,705 |
| October | 465,544 | 11,364 | 130,063 | 41,705 |
| November | 498,993 | 7,143 | 226,991 | 33,666 |
| December | 532,719 | 7,169 | 332,470 | 30,976 |
| 1930: | | | | |
| January | 635,417 | 17,885 | 275,008 | 34,252 |
| February | 470,357 | 14,787 | 223,295 | 34,079 |
| March | 396,309 | 12,315 | 126,058 | 33,301 |
| April | 340,297 | 9,855 | 148,802 | 36,828 |
| May | 346,034 | 7,031 | 174,433 | 49,163 |
| June | 377,981 | 8,880 | 207,276 | 48,851 |
| July | 367,781 | 8,035 | 156,358 | 35,583 |
| August | 311,539 | 9,790 | 139,054 | 23,487 |
| September | 350,258 | 11,070 | 139,085 | 24,199 |
| October | 448,348 | 12,440 | 149,305 | 25,922 |
| November | 429,176 | 9,855 | 283,842 | 46,871 |
| December | 556,343 | 12,249 | 281,963 | 27,743 |

[a] Figures were furnished by the Bureau of Agricultural Economics of the U. S. Department of Agriculture.

[b] These figures were not segregated until March, 1928.

[c] This figure also includes hogs purchased by packers in country.

Detailed figures covering this type of direct buying are available only for certain markets and for the last year or two. The mounting size of the figures presented in the third column of the table on page 184 shows impressively the growth in direct purchases at the Chicago market.

A similar and even more extreme growth of this movement has been taking place at Kansas City, where more than half the receipts now come direct from the country rather than through the terminal stockyards.

The fourth type of direct buying is that of the packer buyer who travels over the producing territory to solicit shipments and make actual purchases. Country buying of this type has existed practically from the beginning of the packing industry. It has, however, been limited largely to the buying of cattle and sheep and has had comparatively little vogue in swine producing regions, particularly those of the North Mississippi Valley, with which we are chiefly concerned in this discussion. With the recent increase of competition between the several types of packers and the packing houses at the several terminal and local points, the packer buyer of hogs has become a more or less familiar figure in the Corn Belt.

Obviously the several methods which we have discussed merge into one another and, in view of the fact that marketing data must be collected and grouped in such ways as not to reveal the identity of individual operations, it is difficult to present a clear and simple statistical picture of the status and progress of direct buying. Figures are available since 1920, however, which show for the nine states of Iowa, Illinois, Wisconsin, Minnesota, Missouri, North and South Dakota, Nebraska, and Kansas the percentage of hogs moving

HOGS MOVING DIRECT TO PACKERS AND CONCENTRATION POINTS FROM CORN BELT STATES, 1920–1930 [a]
(As a percentage of total marketings)

| Year | Illinois | Wis-consin | Min-nesota | Iowa | Missouri | North Dakota | South Dakota | Nebraska | Kansas | Nine States Combined [b] |
|---|---|---|---|---|---|---|---|---|---|---|
| 1920 | 4.7 | 22.9 | 25.4 | 32.7 | 11.3 | — | 17.0 | 5.6 | 14.2 | 18.5 |
| 1921 | 5.4 | 28.4 | 32.7 | 34.9 | 13.8 | 5.4 | 15.9 | 9.6 | 16.5 | 21.3 |
| 1922 | 6.3 | 34.7 | 33.3 | 38.9 | 17.3 | 6.4 | 14.7 | 10.7 | 20.1 | 23.8 |
| 1923 | 6.1 | 39.2 | 33.0 | 37.4 | 15.3 | 5.4 | 13.8 | 9.3 | 19.0 | 22.9 |
| 1924 | 6.0 | 32.8 | 33.6 | 36.5 | 15.9 | 4.4 | 16.3 | 9.6 | 19.5 | 22.6 |
| 1925 | 6.2 | 33.3 | 34.3 | 37.3 | 26.1 | 4.7 | 21.8 | 10.3 | 18.3 | 24.4 |
| 1926 | 5.5 | 30.3 | 37.6 | 42.7 | 25.1 | 21.6 | 38.0 | 11.3 | 17.0 | 28.3 |
| 1927 | 4.7 | 32.4 | 39.2 | 48.6 | 26.4 | 35.0 | 46.5 | 8.6 | 17.2 | 31.4 |
| 1928 | 3.4 | 34.7 | 41.9 | 49.9 | 23.2 | 33.0 | 51.2 | 21.9 | 18.7 | 33.2 |
| 1929 | 6.7 | 40.2 | 47.4 | 61.2 | 22.3 | 34.4 | 45.5 | 21.2 | 18.7 | 37.2 |
| 1930 | 11.5 | 42.9 | 46.8 | 61.0 | 22.8 | 36.9 | 53.5 | 11.4 | 25.0 | 38.2 |

[a] Figures were furnished by the Bureau of Agricultural Economics of the U. S. Department of Agriculture.

[b] For another set of data compiled on a different basis but entirely consistent in meaning with the above, see Table 384, U. S. Department of Agriculture *Yearbook*, 1930, p. 855.

to packers either direct or through concentration points.[6] (See the table on page 186.)

In order to see what these changes have meant in terms of the livestock marketing situation with which co-operatives have actually had to deal, we may now turn to a discussion of the two areas in which developments have been most significant, namely, Iowa and Ohio.[7]

## II. DIRECT BUYING AND THE IOWA CO-OPERATIVES

Having examined the several marketing methods which fall under the general title "direct buying," we are now in a position to see what significance this line of evolution in livestock marketing procedure has for organizations engaged in co-operative shipping or terminal selling. This is a story of two parts. One relates to the eastern edge of the region of surplus livestock production where it shades off into the deficit area. The other is concerned with the area of heavy surplus production west of the Mississippi River, particularly in Iowa.

We have seen in Chapter VI that in the period following 1916, when co-operative livestock shipping associations were multiplying rapidly, they found themselves none too welcome at the local packing plants which are scattered through the state of Iowa.

[6] For the country as a whole the percentage which hogs bought otherwise than through stockyards markets was of all hogs slaughtered rose from 23.9 in 1923 to 40.2 in 1929. U. S. Department of Agriculture *Yearbook*, 1930, p. 855.

[7] It is to be regretted that figures similar to those in the table above are not available for Ohio. A study conducted in that state covering the year 1925 indicated that 26.3 per cent of hogs, 13.6 per cent of cattle, and 33.4 per cent of calves slaughtered by Ohio packers were purchased direct. Henning, George F., "Market Movements of Livestock in Ohio," Ohio Agricultural Experiment Station *Bulletin* No. 409, p. 29.

The Iowa Co-operative Livestock Shippers early sensed the importance of obtaining for member associations access to the local packing plants and concentration points. They saw that if local buyers could use a profitable market outlet which was closed to shipping associations it would result in the dissolution of the co-operatives. The matter was considered to be of such great importance that a conference committee, representing the Iowa Co-operative Livestock Shippers, the Iowa Farm Bureau Federation, and the Corn Belt Meat Producers, met with representatives of the Iowa packers on April 15, 1920. Three of the packing companies agreed that they would treat every shipper alike and give private buyers no preference over the co-operative shippers. Four others were unwilling to commit themselves.

Efforts to secure admittance to the concentration points encountered even greater difficulties,[8] but on October 18, 1921 the Iowa Co-operative Livestock Shippers were able to announce: "We are pleased to advise that we have finally made [the concentration points] appreciate the extent of co-operative shipping. They have opened up their markets to us and have agreed not only to accept our shipments but to give us the same price and service that they give the [country] buyer." The memorandum listed eleven concentration points thereupon made available to co-operative shipments. Local packing plants and con-

[8] This was, in the opinion of the secretary of the Iowa Co-operative Livestock Shippers, "the worst drawback to the co-operative shipment of livestock that we have been up against. In fact, these re-load markets or concentration points have protected the local stock buyers and discriminated against the shipping associations. They have in many instances paid the local buyer higher prices for the stuff than the shipping associations received at the larger terminal markets."

centration yards were now accessible markets to the Iowa livestock producers.[9]

There ensued a period of several years in which the local packer was fairly receptive to co-operative shipping association business, but was naturally inclined to examine it critically to see whether he was getting a more satisfactory shipper service through this sort of connection than through other methods. On the other hand, the co-operative shipping association managers were being educated to acquaint themselves with all the possible outlets for the stock entrusted to them for marketing so that they could place it in the market which would, in view of the time of shipment and the class of stock, afford them the highest net return.

As an aid in this effort the Agricultural Economics Section of the Iowa Agricultural Experiment Station carried on investigations of the actual work of co-operative shipping and of the practices which were being followed by the different managers. The first tangible product of these studies was a system of uniform accounts sufficiently simple to be handled by the local manager but so designed as to make possible a practical analysis of results obtained and of costs involved in shipping to different markets or employing different physical methods of shipment. As soon as managers began to use this standard system of record keeping they rapidly accumulated market information of great interest and value to themselves and to the directors of the associations. The second step in the educational program was the organizing of voluntary

[9] In this effort to secure open competitive markets the co-operative livestock shipping associations were greatly assisted by the Packers and Stockyards Administration, which came into existence in 1921. Upon request of the Iowa Co-operative Livestock Shippers, representatives of this federal agency visited all local packing and concentration points in the state to make sure that the co-operatives were given as favorable treatment as any other shipping agency.

groups of managers and directors in such counties as most actively espoused the work. These conferences resolved themselves into classes for the study of marketing results as revealed by the accounts of the several associations kept on a comparable basis.

As a result of these educational activities, any alert and intelligent local manager may have a market analysis service of the same general character as that which has been developed so widely in industrial and mercantile corporations throughout the country during recent years. As local shipping groups accumulated these data and began studying them they rapidly came to appreciate the comparative advantages of all available markets and of different markets for different classes of stock or at particular seasons of the year.

Iowa is a state whose marketing system does not converge upon a single railroad and packing center as is the case with many other states, notably Minnesota. It is surrounded by some half dozen of the principal terminal livestock markets and has, in terms of both size and volume of operations, the greatest local packing industry of any of the states in the Union. It has from the start been the home of the concentration point market, and has participated largely in the recent expansion of that system as a source of supply for local packers as well as those of the East and of the terminal markets.[10] A study of direct buying of hogs in Iowa, conducted by the Bureau of Agricultural Economics of the United States Department of Agriculture in 1927, indicated that in 8 counties co-operative shipping associations had a choice of between 10 and 13 market outlets, in 22 counties from 8 to 9, in

[10] In recent years half the hogs marketed have been sold direct to packers and concentration point buyers within the state lines (see table on p. 186). This excludes the stockyards sales at Sioux City, which take about another 10 per cent.

20 counties from 6 to 7, and that only 9 counties had less than 4 choices.[11]

Somewhat unfortunately this growing practice of co-operatives of utilizing whatever outlet showed itself to be most profitable did not fit with complete harmony into the plans and philosophy of the Committee of Fifteen in developing its terminal selling system. Once having established a terminal commission company, it was of course important that a volume of co-operative shipments be secured as promptly as possible and made to grow to as impressive dimensions as could be secured. Terminal commission companies, both of the Producers and of the Farmers' Union chains, have taken the position that all co-operative shipments should be consigned to co-operative agencies at the terminals and that, in utilizing local markets which appeared to have relative advantages, the shipper was unwittingly defeating his own ends by lessening the strength of his collective bargaining agency in the central market. This has developed into a rather sharply defined controversy, and a full discussion of the issues involved must be deferred until later (Chapter XIV). At this point we shall complete our survey of actual developments in direct buying in the western Corn Belt states.

The table on page 186 reflects a widespread and steady growth in direct buying in this territory, with 1929 showing the sharpest advance of any single year. Besides this general growth in local packing plant and

[11] Derrick, B. B., "How Direct Buying of Hogs Is Done Today in Iowa," *American Co-operation*, 1927, Vol. I, pp. 566-67. See also FitzGerald, D. A., "Local Co-operative Livestock Marketing Associations in Iowa since 1920," Iowa Agricultural Experiment Station *Bulletin* No. 254, pp. 52-53; Nourse, E. G., and Hammans, C. W., "Co-operative Livestock Shipping in Iowa in 1920," Iowa Agricultural Experiment Station *Bulletin* No. 200, p. 414; Derrick, B. B., "Some Phases of Hog Marketing in Iowa," U. S. Department of Agriculture *Circular* (in press).

re-load station business, one rather distinctive development deserves a word of further comment, namely, the movement for the establishment of co-operative concentration points or other direct producer-packer relations. This is significant as marking the initial step toward making the co-operative shipping organization a true selling agency for the product of its members.

From the time that local co-operative associations, in conjunction with the state federation and Iowa State College, began to make analytical studies of the actual selling of Iowa hogs, it became increasingly apparent that the best results could be secured only by having some degree of centralization so that the marketing of hogs would converge upon certain strategic points. From these, either as physical concentration points or as trading centers, distribution could be most economically and effectively made to the several market outlets in proportion to the intensity of their demand, measured accurately in accordance with the several grades or qualities of product available. The idea of economy involved not merely the elimination of unnecessary shipping and terminal charges but also, if carried to its logical development, full loadings, double-decking, and the reduction of the managerial force to the minimum number of full-time and specialized employees necessary for handling the business. On the side of efficiency, it was expected that such an arrangement would parallel the achievements of co-operative marketing in other commodity lines by securing greater standardization of the product through such degree of grading and sorting as was feasible and also by substituting a small force of experienced and well-trained marketing specialists for a large number of local amateurs. A third aspect of

the matter, however, laid emphasis on the better general level of prices which could be secured under a system of collective bargaining. By some at least it was felt that the more packer buying was done direct with the small local manager the greater the possibility for depressing prices. If buying operations were—as appeared evident—going to be carried more and more into the producing territory, it was thought to be important, in the interest of bargaining strength as well as on grounds of economy and efficiency, that the selling function be concentrated in the most capable hands.

The Iowa Co-operative Livestock Shippers were active in promoting the discussion of the co-operative concentration station idea. In the latter part of 1923 they circularized their members to see what volume of business might be available and whether associations in particular territories were sufficiently interested to justify the undertaking of active arrangements. The response was favorable, and at a conference in the Mason City district a committee was appointed to work out plans and see what attitude would be taken by the packers and railroads. Both these interests showed a friendly disposition toward the proposal but each of them naturally was interested to secure a maximum of advantage with no greater risk or more active participation than was required. The packers stated "that they would prefer to buy from an agency with such a volume of business rather than from so many different shipping associations and stock buyers,"[12] one of the larger packers going so far as to indicate that they alone would be in the market for the entire output of the Mason City concentration yards, distributing it to their various plants. Each of the five railroads operat-

[12] *The Shipper* (official organ of the Iowa Co-operative Livestock Shippers), January, 1924, p. 5.

ing through Mason City expressed a willingness to furnish the necessary facilities and arrange the necessary through billing rates. As negotiations proceeded, however, it appeared that each of the roads wanted to concentrate the business on its own lines and that no practical plan could be found which was acceptable to all.

The real crux of the matter was that no railroad wanted to establish facilities nor did any packer wish to give this marketing scheme a definite place in his buying operations until there was adequate assurance that a sufficient and dependable volume of stock would be brought together and that the management would be of a sort which would assure permanently satisfactory commercial relations. At this point, it appeared that individual producers and local shipping associations, however enthusiastic as to the general proposal, were not ready to come wholeheartedly into a plan on such terms as were necessary to its success. Local managers were chary of delegating their selling functions even in part to an overhead agency and had so tenuous a hold on their own membership and volume of business as to make it difficult for them to make the necessary commitments even where they were desirous of doing so.

As a result of these general conditions the idea of a co-operative concentration development at Mason City, and of one at Fort Dodge which was projected at about the same time,[13] has never fully materialized. There

[13] Here it was planned to take over a previously existing private concentration station and to operate it co-operatively for the disposal of the product of local shipping associations in the tributary territory. Physical concentration was contemplated in the first plan, but this was modified in the second draft so that hogs would be shipped direct from the local stations in accordance with instructions from the selling agency at Fort Dodge. It was to have become operative when twenty local associations joined the project.

has, however, been some movement toward the development of certain strong regional groups with joint selling arrangements. The Mason City territory has been the leader in establishing such a unit—the Clear Lake association. Others have been set up at Cedar Rapids, Center Junction, Williamsburg, and Des Moines.

These developments seem to show a growing feeling on the part of Iowa shippers that, if the plans of the packers or the general force of market evolution tend to shift the place of sale of livestock more and more from the great terminal stockyards back into the producing territory, it is desirable from the standpoint both of marketing costs and of the equalization of prices that this selling function be concentrated in a moderate number of local centers. The producer's interest also demands that sales made at these points be under the auspices of producer-controlled agencies. The vital issue is how to get the greatest marketing efficiency and bargaining strength with the simplest and most economical type of organization. One rather distinctive line of attack on the problem may be noted.

After most of the national packers and the largest local packers had established direct local country station or concentration buying in the state, one big terminal packer continued to hold back. This company felt that such a development involved expensive duplication of buying machinery in the country. Finally, however, it decided that in self-defense it also must secure country representation. At this juncture a conference between the Iowa Co-operative Livestock Shippers and the representative of this national packer resulted in an arrangement of a novel sort. Under it the packer was to refrain from establishing concentration points or soliciting direct shipments. The federation undertook to get a group of co-operative

shipping associations which were suitably located to direct their shipments to the packer at his local plant in central Iowa. After meeting the needs of this local packing house any surplus receipts were to be directed to the terminal plants of the company.

Such an arrangement might conceivably go far and be to the distinct advantage of both producers and packers if the co-operative selling agencies were fully integrated.[14] This is precisely the issue which confronted the Federal Farm Board when it entered the field of livestock marketing. We shall resume the discussion of it in Part III.

### III. DIRECT MARKETING IN OHIO

In discussing the Iowa situation we have noticed the tendency in the packing industry for local slaughtering plants to be scattered over the producing territory, strategically located with reference to the source of their raw material. It is equally true, however, that meat packers or local slaughterers in the eastern section of the country have tended to continue in their

[14] Although it is a type of development new to co-operative livestock marketing and yet analagous to that which has characterized some of the most successful co-operative undertakings in other commodity lines. That is, it draws a new frontier of relations between the producer group and the consumer group, superseding the old independent middleman system with one in which the wholesale buyer (ordinarily processor and distributor) recognizes the principle of producer organization and undertakes to look to such associations for his supplies and to negotiate directly with them as to prices and methods of handling the business. The producer agency, on the other hand, undertakes for its membership (1) to provide a dependable outlet at equitable prices, (2) to make marketing methods as direct as possible with a minimum of physical handling and the delay, cost, and deterioration incident thereto, and (3) to standardize and grade the product in such a way as to facilitate its movement, assuring the consumer a product which will correspond to his needs and securing for the producer such premiums as he is entitled to or such discount as he deserves.

old business location even after local sources of supply became inadequate to local consumption needs. This is in part at least due to the fact that there is a very substantial demand for fresh-killed meat and that to meet this demand it is expedient for the packer's plant to be located at a consuming center and for him to ship his livestock in from the surplus region farther west. Naturally he wishes to avail himself of a reasonably nearby source of supply. As a result of this there has been a favorable market in the central and northeastern seaboard states for the surplus hogs of Ohio, Indiana, and southern Michigan.[15]

It would be theoretically possible for any local shipping association in the states just mentioned to find one or more buyers in some of these larger or smaller packing plants in the consuming territory to the east of its shipping point. In practice very few local managers have had the marketing skill and initiative to seek out such a special outlet and establish and maintain satisfactory trade relations.

In 1923, however, a livestock shipping association—the Fayette Producers' Company—which had been in successful operation on a county basis for some years at Washington Court House began an aggressive development of a new method of selling hogs direct to packers. The energy and originality with which the manager of this association attacked the problem of finding the most favorable outlet for his members' product resulted in establishing direct selling relations with local packing plants from New York to Virginia

[15] The situation is analagous to that of Iowa in that it presents the problem of selecting from a large number of possible outlets those which are most advantageous in view of transportation conditions, peculiarities of consumer demand, and the like. The Ohio organizations, however, have gone much beyond those of Iowa by furnishing a direct selling service rather than merely encouraging better distribution of supplies among the several available markets.

and as far east as the New England seaboard. In many instances the manager made personal trips into the territory studying the possibilities and making the personal contacts which were necessary for developing this system of direct selling and keeping it in smooth operation. Naturally, changes were made from time to time, former customers being dropped as unsatisfactory and new ones being added as they showed their superiority or as additional outlets were necessary. The volume of direct shipments grew from 114 floors in 1924 to 1,223[16] in 1928, and the net returns to shippers were regarded as highly satisfactory.

Meanwhile another line of development was emerging in the state of Ohio. National Producers agencies had been established in 1922 and 1923 at Cleveland, Buffalo, and Pittsburgh, and a considerable effort was made on the part of the state overhead shipping organization, which was in reality a subsidiary of the state Farm Bureau Federation, to direct the product of co-operative shipping associations to these terminal agencies. While the business prospered in a reasonable way, it encountered one serious difficulty in that the order buyers who represented Eastern packers on these stockyards markets were inclined to discriminate against Producers companies. This attitude grew out of the fact that order buying on these several stockyards markets was closely identified with the "old line" commission companies. Most of these firms bought as well as sold livestock and were strongly disposed to maintain this mutuality of interest against the newly arrived co-operative trading agency. In order to break this boycott among the order buyers and also to reduce, if possible, the cost of marketing their members' prod-

[16] Out of a total business of 1,897 floors. The term "floors" has been adopted to supply a common denominator for both single- and double-deck cars.

uct, the Ohio Livestock Co-operative Association undertook to establish direct connections with Eastern buyers on lines essentially similar to those of the Fayette County association. There was set up a subsidiary organization [17] under the name "The Eastern States Company." It was established in October, 1923 (beginning operations in February, 1924) to act as an order buying agency for supplying hogs to Eastern killers from Producers terminal markets and from Ohio co-operative associations. Later co-operative shipping associations of Indiana and southern Michigan joined the system.

While a considerable part of this early business consisted of order buying [18] on the stockyards markets of the region, the Eastern States Company was anxious to perfect more direct and economical methods of putting Ohio livestock into the hands of actual killers.[19]

[17] Its stock ownership and control were held by the Ohio Livestock Co-operative Association and the three Producers commission agencies at Cleveland, Buffalo, and Pittsburgh. Later the Indiana Farm Bureau and the Michigan Livestock Exchange came into the organization.

The co-operative character of the company was somewhat ambiguous. It was a stock corporation for profit. However, its stock was all held by co-operative shipping or selling agencies or by Farm Bureaus. Profits, if any, would be returned to farmers' organizations and through them to farmers, or spent in the service of farmers. While earnings in excess of 8 per cent were to go to the several organizations on the patronage basis, there could be no assurance that such refunds would be returned to the specific owners of the stock on which the earning was made. In fact, it would be quite impossible to maintain the identity of the transaction through so involved a process.

[18] When sufficient orders were not actually in hand to take care of the requirements of the Producers agencies, stock was sometimes "weighed up" to the Eastern States Company for subsequent sale—a practice similar to that used by the stocker and feeder departments of the Western co-operative terminal commission associations.

[19] "The Eastern States Company would probably not have been organized if the Producers agencies had not been developed. The Eastern States Company was first organized to meet

In pursuing this objective it sought not merely to increase the amount of direct selling but also to change the method of sale to a "yield" basis so that buyers might buy with full assurance as to what they were getting and that producers' returns might reflect more closely the actual quality of what they sold.

Selling on yield or "dressing percentage" has long been the standard practice of the Danish co-operative bacon factories, but had been little known in America until taken up by the Fayette Producers' Company and the Eastern States Company. When hogs are sold on a yield basis, they are priced according to certain weight groupings, each group being subject to a yield or dressing percentage guaranty. For illustration, on a car of hogs weighing from 180 to 200 pounds the yield of dressed meat to live weight at time of slaughter might be guaranteed to average 76 per cent, with 76.5 per cent for hogs averaging 200 to 220 pounds, 77 for

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emergencies arising on the market and afterward extended to assist county associations." Letter of Eastern States Company, April 26, 1928.

An early statement of the purpose of the Eastern States Company is obtained from a letter of the manager, F. G. Ketner, dated Nov. 27, 1923 (in the files of the Federal Farm Board): "The Eastern States Company [is] a livestock purchasing agency, which will at the outset operate on the Buffalo, Cleveland, and Pittsburgh markets as well as the Washington Court House, London, and Urbana, Ohio markets. . . . The Eastern States Company was organized and is operating as a project of the National Livestock Producers Association. We will represent killers and packers and buy all species of livestock on order. This will give slaughterers direct contact with the large volume of livestock now available through co-operative commission associations and which has not always been available to them when orders were held by firms not in sympathy with the co-operative movement. The filling of orders, however, is only preliminary to and incidental to the real mission of the Eastern States Company, which is to first bring about a closer working relationship between the three Eastern markets above mentioned and then to effect steps in the more orderly marketing of stock originating in this territory."

a range from 220 to 250 pounds, and 77.5 for hogs weighing from 250 to 270 pounds.[20] Special provisions are made for overages in case the agreed percentage is exceeded and for deductions in case it is not attained.[21] Some packers have made private treaty arrangements to obtain a yield of 75 per cent regardless of weight. As a general statement, the use of the yield basis of sale is regulated by definite arrangements between the contracting packer and the producers' selling agency.[22]

The Eastern States Company handled 36,272 head of stock in 1924, from which level its business rose steadily to 451,161 head in 1928. Besides buying livestock for packers and thereby furnishing a direct outlet from shipping point to slaughterer, the company has assisted Ohio farmers in securing stocker and feeder cattle and sheep on the Western ranges. This

[20] Yields may be determined either on a warm or chilled basis. Warm weights are from 2.5 to 3 per cent higher than chilled.

[21] See Randell, U. S. Department of Agriculture *Technical Bulletin* No. 57, pp. 94-95.

[22] A hypothetical transaction illustrates the direct marketing methods followed in this Eastern territory. A packer wishes to obtain a certain quantity of good quality hogs with an average weight of 200 pounds. He places an order with the manager of the direct selling agency at Columbus to obtain hogs of this description for him. The Columbus manager is in touch with the county shipping managers and knows where a supply of hogs of the desired weight will be available for immediate shipment. The manager also knows the freight rates obtaining from various points to the packer's plant. With this information at hand the Eastern States manager arranges the shipment. The basis of the sale may be either a fixed price per hundred, subject to an allowance for shrink and dockage, or the going price at a certain terminal market less a differential for freight to the terminal. Prices are governed by a general agreement subject to the specific conditions of the individual sale. In some cases the hogs are sold on the yield basis, as discussed above. The packer pays the direct selling agency a service fee of $12 per double-deck carload for facilitating the sale. The county association making the sale pays no commission charge to the overhead company.

business amounted to 22,170 animals in 1928. The company also had a feeder finance department which extended $207,000 of credit to its feeder patrons in 1928.

### IV. THE NATIONAL ORDER BUYING COMPANY

During the year 1928 the Eastern States Company was made a member of the National Livestock Producers Association and designated as its official order buying agency. This in turn opened the way for a change of name and enlargement of scope and area of operation. In May, 1929 the Eastern States Company was reorganized, dropping its purely local character and becoming in name and aspiration a National Order Buying Company. The Ohio Livestock Co-operative Association and the Indiana Farm Bureau retired from the company, their stock being purchased by the Chicago and St. Louis Producers Commission Associations with the expectation that the associations on other Western terminals would eventually be added. The feeder finance service of the Eastern States Company was transferred to the Producers Livestock Credit Corporation (established by the Chicago and St. Louis Producers Livestock Commission Associations).

It was not expected that a complete metamorphosis would be effected at one step. Rather it was hoped that the new agency would gradually enlarge its packer clientele and extend its operations to more distant markets. The entrance of the Federal Farm Board into the field of national livestock marketing organization gave its growth a new stimulus and direction (see Chapters XV and XVI).

# CHAPTER XII

## DIRECT MARKETING BY CO-OPERATIVES IN THE FAR WEST

While most people think of the co-operative achievements of the Pacific Coast states, and particularly of California, in terms of horticultural products, this region has in fact also made a distinctive contribution to the co-operative marketing of livestock. The situation on the Coast has been characterized by the absence of great public stockyards markets such as are found in the Central and Eastern states. Direct selling of livestock to packers and butchers has therefore always been a part of the accepted practices of this region. The co-operative undertakings which we are to discuss in this chapter have sought modification of old methods rather than the introduction of an entirely novel idea. They were designed to free the livestock producers of this section from certain undesirable features of the system of non-stockyards sale to which they had been accustomed and to set up a system of producer-controlled marketing which would stabilize market movement and prices. Two lines of effort are to be noted: (1) hog auctions and (2) co-operative cattle marketing.

### I. CO-OPERATIVE HOG AUCTIONS

To understand the co-operative hog auctions which have proved so successful in some seven counties of California, one must visualize previous marketing conditions. The outstanding feature was the lack of public livestock markets with competitive sale by commission men such as characterize the markets of the Central

and Northeastern states discussed in earlier chapters. The hog producer in the San Joaquin Valley had the choice of shipping his hogs to the packer at either Los Angeles or San Francisco, or of selling locally to a country buyer who in turn would sell at the terminal. Neither alternative was entirely satisfactory. In case the producer himself shipped to market (a method open only to large operators who could ship by carload), he was not assured of receiving a competitive price, for there was not an open market at either of the terminals.[1] In case the producer sold locally to the country buyer, he could not be sure that an excessive amount was not deducted for the service. The situation was made more complicated by the lack of standard grades, which made comparison impossible between local and terminal prices. This fact was responsible for the production of much poor quality stock, since there was no incentive in the way of a price premium for the better grade or quality.

The situation in the winter of 1916, when grain feeds were high and the price of livestock for butchering purposes comparatively low, became so serious that the Kern County Farm Bureau, through its marketing committee, undertook an innovation in hog marketing methods. This committee pointed out that the objections raised against the old system could be met by encouraging producers to bring hogs to a central point for auction to packers or other buyers.

> It was conceived that if hogs and other fat stock could be brought together at a central point in the various producing localities and as near the producer as possible, and there sold by auction to the highest bidder, carefully grading the stock in accordance with its quality, we should realize at least a fair market price and that those who produced good animals should receive higher prices than

[1] The Los Angeles Union Stockyards were not opened until 1922, and the South San Francisco Union Stockyards till 1927.

those producing the poorer ones. At the same time the arrangement would bring together a great number of farmers at a common point where each would see his animals with his neighbors', the educational value of which is obvious. It would also eliminate the uncertainty of having stock shipped to points far distant, where the producer was dependent on the honesty and integrity of other people as to the matter of weights, shrinkage, and condition of animals upon arrival.[2]

After considerable preparation the first auction was held at Wasco on February 10, 1917. Three carloads of fat hogs were sold at prices which were very satisfactory. Thus encouraged, it was decided to hold a second sale at the same place the following month. At this sale representatives from the Cudahy Packing Company, the Wilson Packing Company, the Western Meat Company, and two local buyers were present, and the prices received seemed to be higher than most of the farmers had expected. The estimated attendance at the second sale was four hundred and fifty, thus gaining for the new method a considerable amount of publicity. The report of the first year's work summarized results as follows:

The demonstration has been a thorough success and, in all, eleven stock sales have been held in the county. Of these, seven have been at Wasco, two at Tehachapi, and one each at Bakersfield and Shafter. The total volume of business transacted by these sales amounts to $98,644.36. The commission charged at first was 3 per cent; later it

[2] *Report* of G. C. Kreutzer, Nov. 30, 1917, Extension Service files, University of California. Mr. Kreutzer claims little originality for the California plan of auction sale. It was an adaptation from the Australian system of marketing which he and Dr. Mead had come in contact with in development work. "It was only natural that we could see its advantage for marketing hogs in California, where most of the stock was bought by local dealers or speculators. Modifications were made in the Australian system, adapting it to California conditions." Letter of Aug. 2, 1927, Extension Service files, University of California.

was reduced to 2 per cent, and finally to only 1 per cent. Even at the low rate of 1 per cent, we have been able to pay all of our expenses for conducting such a marketing plan and build up a liberal reserve from which we have constructed first-class stock scales [etc.] . . . Not only has this system benefited the small producer, who was paramount in our minds from the inception, but it has also benefited the large producer who could sell in carload lots.

Similar sales were held in the adjoining counties during 1918 and, from that time to the present, auctions have been popularly accepted throughout the San Joaquin Valley. In the fall of 1918 an auction sales committee, comprising representatives from the Farm Bureaus of Fresno, Tulare, and Kings Counties, met with the marketing committee of the Kern County Farm Bureau to consider questions raised by this method of sale.[3] As a result of this conference the auction sales in all the counties were made more uniform and the way was paved for the creation of the Farm Bureau Marketing Association.

The Farm Bureau Marketing Association opened for business as a non-profit organization on October 1. The form of organization then adopted is still in force. Its board of seven directors is made up of one representative from each of the seven participating county Farm Bureaus. Individuals do not hold membership directly. Any farmer can sell his hogs through the association provided he belongs to a county Farm Bureau and, should he not be a Farm Bureau member,

[3] The following topics were discussed at the conference: holding the hog raiser responsible for condemnation losses; methods of tagging hogs; management of auction sales; rates of commission; schedule of sales dates; use of an official bidder; selling cattle; market quotations; publicity methods; accounting; and so forth. The minutes of the marketing conference of August 30 and its second session of September 14 are available in the files of the Extension Service of the University of California.

he must pay a fee equal to Farm Bureau dues for the privilege of selling through the association. No contract obligates anyone to sell through the association whether or not a Farm Bureau member, so that producers using the association are free to sell elsewhere at any time. The association, relying entirely upon commission charges for operating expenses, was started without capital. The commission rates for each ensuing twelve months are now fixed in October by the directors. The commissions are maintained at a point which will just pay the salaries and expenses connected with the operation of the auction sales, and provide for the accumulation of a small revolving fund. In the words of the manager: "When we see that we are running behind, we raise this commission at this meeting, but if we find that we are getting too far ahead we reduce the commission." Commission charges at the present time are 2 per cent of the sales price.

The operation of the Farm Bureau Marketing Association is simple. The general manager, through whom sales are consummated, and the official grader, who sorts and arranges hogs into marketable groups, carry on all of the association's technical work. The sales dates are set in advance for a year at a time by the officers and directors. They are announced on a large calendar, which is distributed in the territory to call attention to the dates and places for the hog auctions during the year. The producers, packers, and other buyers are thus continuously informed of the dates and locations of the sales. From two to six per week are scheduled.

Pens, scales, and other equipment have been provided by the Farm Bureau Marketing Association through the accumulation of a small reserve out of

commission charges. The farmer delivers his hogs to the auction point, where they are graded in pens in advance of the sale. Each lot is sold to the highest bidder unless all the bids on the lot are unsatisfactory to the manager. In that event he will bid a price which represents the amount that he can obtain for the hogs from a Los Angeles or San Francisco packer or buyer less the expense of getting them to these markets, which is about 1.5 cents per pound. The manager keeps in continuous touch with prices obtainable at the terminal so that, if bids in the country are not above the terminal price less 1.5 cents, he can then consign the swine to the market. This, however, has happened only some half dozen times in the history of auctions.

Standardization and grading are an essential part of the auction sales plan. At first it was difficult to teach the producers that careful grading was necessary for the successful operation of the sales. An outside observer who visited the California hog auctions in 1920 described some of the early difficulties as follows:

> At first the grading was hard—the farmers made it so. Men who had been used to hog selling as a game of chance were slow to realize that honest selling was essential to the success of the work. One man brought in a load of barrows that obviously had been kept at the skim-milk trough for hours before loading. [The official grader] looked them over with displeasure. He knew that to put them in with the first-class stuff would break the price of the pen and would also give the packer buyers the impression that the Farm Bureau was trying to put something over. "We're selling pork, not fill," he said finally. "I'm going to offer these at half a cent under the price of the other stuff of the same grade." [4]

[4] Murphy, D. R., "A New Method of Hog Marketing," *Wallaces' Farmer*, Sept. 17, 1920.

Lessons such as this succeeded in giving the Farm Bureau marketing method a reputation for fair business methods.

The California Farm Bureau Marketing Association has operated in the manner described above for twelve years,[5] and there has been only one change in the manager or official grader. The number of hogs sold by the California Farm Bureau Marketing Association has exceeded 500,000 head. There has been considerable fluctuation from year to year, as shown in the table on page 210.[6] The figures, which were furnished

[5] The auction sale method is also used in Kentucky. It was introduced into the central part of the state in 1922, and by 1925 there were thirteen auction sales companies in operation. Although popularly known as co-operative, only two of the thirteen companies were so in fact. In 1925 over seven million dollars worth of livestock was sold in this way. Fifty per cent of the animals sold are lambs and sheep, the other 50 per cent being evenly divided between cattle and hogs.

The auction method lays prime emphasis on proper grading. "Grading makes possible the selling of calves, lambs, and hogs in lots of uniform grade, and each farmer gets the same price for the same grade of stock. Cattle are not graded and mingled, but are marked and sold separately for each individual consignor." The livestock is penned after weighing, and lists are made up which describe the contents of each pen. Hogs are sold by pen numbers, but lambs and cattle are sold on inspection in the sales pavilion. Most of the livestock sold is disposed of to order buyers representing Eastern packers. "It is estimated that the order buyer gets 60 per cent of the lambs, 70 per cent of the hogs, 50 per cent of the calves, and 5 per cent of the cattle." The remainder is sold to local traders or speculators who usually sell on central markets, to farmers who may want feeders and breeding stock, and to local butchers and packers. For further details see Johnson, E. C., "Kentucky Livestock Auction Sales Organizations," Kentucky Agricultural Experiment Station *Bulletin* No. 270.

[6] About a year ago the association instituted a system of cattle shipments. The method of handling these shipments is quite similar to that followed by livestock shipping associations elsewhere. Each animal is given an ownership mark and consigned to the Union Stockyards at Los Angeles for sale on commission. The charge made by the association for its service is at a flat

by the manager, cover years running from November 1 to November 1.

| | |
|---|---|
| 1918–19 | 39,388 |
| 1919–20 | 51,849 |
| 1920–21 | 44,783 |
| 1921–22 | 43,204 |
| 1922–23 | 48,721 |
| 1923–24 | 45,363 |
| 1924–25 | 25,999 |
| 1925–26 | 22,362 |
| 1926–27 | 31,834 |
| 1927–28 | 55,546 |
| 1928–29 | 58,149 |
| 1929–30 | 38,014 |

## II. THE WESTERN CATTLE MARKETING ASSOCIATION

California was also the birthplace of a co-operative agency for marketing cattle. The California Cattlemen's Association, an organization representing fully 75 per cent of the beef cattle producers of the state, formally established this selling agency in the latter part of 1923. Owing to an outbreak of foot and mouth disease, and the necessity for government control of livestock movements, active work had to be deferred for more than a year. Beginning in 1925, however, its operations were rapidly extended to include other beef cattle areas of the Southwest and later of the Northwest. The marketing agency in 1927 adopted the name "Western Cattle Marketing Association."

The cattle market had been unstable and unsatisfactory during the years following 1920, and the producers felt that this was due in part to the domination of the buying interest and in part to the

rate of 80 cents per head on cows and bulls and 30 cents on calves. Cattle shipments are made from two points each month, and during the year 1929-30 showed a volume of 2,234 cattle and calves. Farm Bureau members have been much gratified at the results of these cattle shipments and expect the business to expand considerably.

unorganized way in which stock was marketed. Cattle producers began to ask themselves why, if other groups of California producers could market co-operatively, they should not do likewise. The establishment of the Los Angeles public stockyards in 1922 raised new fears that the consignment method of sale would be forced upon producers, and this contributed in some measure to the decision that the time was ripe for action.[7]

The marketing plan, as worked out by the California Cattlemen's Association, was in many respects similar to that of other California commodity marketing organizations, and it was in fact submitted in its formative state to most of the California associations for suggestions and criticism. It was based on the principle that a marketing organization should handle but one commodity for a natural producing territory in which a high degree of control in marketing could be secured. This inference is explicitly shown in the statement of the secretary of the California Cattlemen's Association when submitting the plan for ratification:

> After careful study, it is determined that we have a peculiar condition in the states logically marketing in California, and we have therefore worked out a co-operative marketing plan for beef cattle which could not be as easily worked out in any other section of the country. We believe that we can easily and readily regulate, by co-operative and orderly marketing, the cattle which normally and naturally come to California points for their logical market. The total production of cattle in California is only equal to 73 per cent of the total slaughter in the state, and it is regularly and normally necessary to call upon the adjoining states for the remainder of our supply, particularly during the late fall, winter, and early spring months. The total output of fat cattle from California, Arizona, Nevada, Utah, and southern Oregon is

[7] Harlan, C. L., "How Direct Selling Works," *Wallaces' Farmer*, March 2, 1928, p. 3.

approximately equal to the total slaughter in those states. The above named states, therefore, form a logical territory to be included in a marketing program. As our population and demand increase, additional territory can be cared for by this marketing plan.[8]

Since the theory of the plan emphasizes control of the product during the marketing process, it has been necessary to put into operation methods of marketing which would co-ordinate supply and demand. The cattle to be marketed are scattered over a wide area of California and several neighboring states,[9] while the demand for cattle is centered in the large cities, especially San Francisco and Los Angeles. If the supply is to be moved to market in an orderly manner, therefore, it is necessary to have central sales offices at the points of demand and branch offices to deal directly with shippers in the producing regions. For that reason the set-up of the Western Cattle Marketing Association consists of two main offices, one at San Francisco[10] and one at Los Angeles, and a number of district offices under the supervision of field agents—originally ten, but now approximately double that number.[11] There

[8] *Proceedings* of Seventh Annual Convention, p. 37.

[9] "The production of fat cattle in these states [outside of California] is confined to very definite and relatively small areas, such as the Klamath Falls section of Oregon, the Reno-Minden and Lovelock section of Nevada, and the Salt River Valley of Arizona, where winter feeding of cattle in feed-lots is carried on to produce the bulk of the fat cattle production of those states." Hagen, R. M., "Direct Selling of Southwestern Cattle," *American Co-operation*, 1927, Vol. I, p. 596.

[10] The San Francisco office is the directing headquarters for all operations.

[11] The association appointed a sales supervisor on April 1, 1930. It is hoped that the new officer will "enable the various field agents to do more uniform work in grading so that the same grade and class of cattle from various districts will be sold on exactly the same basis." The sales supervisor is expected to stop "the tendency of the buyer to go to one field agent and tell him that he is charging too much for a certain

is nothing which corresponds to the local shipping association of the Central states. Producers hold membership (under contract) direct with the central organization. The stock is shipped out under the immediate direction of the district office, and the producers receive payment from the central office, which in turn secures settlement from the packer. Sales are by individual lots without pooling.

The basis of the efficient operation of the Western Cattle Marketing Association is found in the membership regulations of the by-laws and in the marketing agreement. These documents are designed to bring the actions of producers into conformity with the needs of a unified marketing program while insuring a large amount of independence to individual producers. The contract provides:

> The producer hereby appoints the association exclusive agent and grants it the exclusive right to sell all cattle now or hereafter owned or controlled by producer, provided that either party may cancel this agreement at the end of any year after 1924 by written notice to the other given between November 1st and November 30th of such year. Producer shall inform the association of the location and number of each kind of cattle herein involved and grants association right of entry on any lands controlled by him to obtain such information at producer's expense should he neglect to do so. Association shall use its best efforts in the course of orderly marketing to make sales of such of the cattle above described as at any given time are intended or in the opinion of the association are acceptable for slaughter, but shall not make such sales at prices below any minimum prices which producer from time to

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grade of cattle as compared with a field agent some place else." The sales supervisor also mobilizes the field service so that, when there is a period of heavy shipping in one district, field agents may be transferred from other districts where there is light shipping. *Western Cattle Markets and News* (official organ of the Western Cattle Marketing Association), April 14, 1930.

time may fix on the basis of the rate per pound, official government grades, ranch or shipping point, provided that such minimum shall be ineffective at the option of the association until ten (10) days written notice thereof shall have been received by the association. In order that the producer may more accurately fix such minimum sales prices, the association shall maintain for producer's exclusive and confidential use a marketing information service covering all available and appropriate facts and conditions. Producer shall deliver all cattle sold hereunder to slaughter house or f.o.b. cars shipping point, failing in which the association may do so at producer's expense. The association shall have power to execute all documents and do all things necessary or incidental to the powers hereby granted.

Other clauses grant the association power to collect all proceeds of sale and deduct for expenses, to sell cattle "other than intended or acceptable in the opinion of the association for slaughter only as specifically requested by producer, and only upon such terms and conditions as producer may define" at actual cost of rendering service. Furthermore, "in case of disagreement . . . as to the grade of any cattle, the matter shall be decided by three persons, one chosen by the producer, one by the association, and a third by the other two." In case the producer does not dispute the grade prior to shipment, the grade as determined by the association shall be binding. In signing the contract the producer "creates a lien in favor of the association on all cattle herein described to secure all sums that may become due hereunder," this lien to "be subsequent to any lien created in good faith for value on such cattle prior to the filing of any suit by the association to enforce the lien herein created." The producer may assign his interest in livestock to be sold for him through the association as a method of securing credit or borrowing without forcing him to sell other than through the association. The by-laws also provide

for liquidated damages of one cent per pound and the equitable remedies of injunction and specific performance.

To visualize the problem of marketing, imagine a San Francisco packer, whom we shall designate as X and producers A, B, C, D, and E in District 5 who have fat cattle ready for slaughter. Clearly, the function of the Western Cattle Marketing Association is to bring A, B, C, D, and E into contact with X at mutually agreeable terms.

In order to be able to serve in the capacity of mediator between Packer X and producers A, B, C, D, and E, it is necessary for the association to have (1) full information not only concerning the needs of X but of all demands of other packers, Y, Z, and so forth, both present and potential, and (2) full information of immediate and future supplies of marketable cattle, not merely those of A, B, C, D, and E, but of F, G, H, I, J, and so forth. Only by having full information can the association facilitate bargaining between X and A, B, C, D, and E in accordance with the theoretically correct market prices. Therefore, assuming that the association has full information concerning supply and demand conditions, it can suggest to A, B, C, D, and E and to all other members a range of prices in accordance with fundamental supply and demand conditions.[12]

The most significant task of the district office and sales supervisor is keeping in close touch with supply conditions, while conversely the most significant task

[12] In fact, the association endeavors to suggest prices for seasonal periods. "The sales policy of the association is one that favors a fixed price for the same class and grade of cattle over seasonal periods . . . The price set is what is conceived as being the highest possible that will move the indicated supply. It is subject to change, either downward or upward, as conditions develop during the season." Harlan, C. L., *Wallaces' Farmer*, March 2, 1928, p. 14.

of the central office is keeping posted as to demand conditions. Each district field agent keeps a continuous inventory of cattle production and its marketing position so that he may know at any time how many cattle are ready for market as well as prospective supplies. This information is filed also with the central offices at San Francisco and Los Angeles with reports from other branches. A combined report is thereupon made available to all the branches, giving information on the changing conditions of total livestock supplies and making suggestions as to marketing policy in the light of knowledge collected by the main offices on demand requirements.

To return to our illustration, producers A, B, C, D, and E have all filed information with Branch Office No. 5, which information has in turn been relayed to the headquarters offices. When Packer X telephones the main office that he wants supplies of a specific grade and quality, he is notified that the cattle of producers A, B, C, D, and E in District No. 5 will meet his requirements, and is referred to the field agent for that district. Packer X may follow one of two courses. He may send an employee to inspect the cattle and bargain for them with the association's field man or with the individual producers, or he may leave the matter of obtaining satisfactory supplies entirely in the hands of the association. If the matter is placed in the hands of the association, the field agent will be notified by the general office to ship to the packer at the price determined. As the producer must file minimum prices ten days in advance of the time when his cattle will be in a marketable position,[13] the central office can proceed to make sales in this way on a definite price basis.

[13] See contract provisions, p. 214.

In other words, the packer may send a representative into the field to see the cattle, sort them, and adjust the price, or he may repose full trust in the field agent of the association to sort and deliver the cattle f.o.b. cars. In the first case, the field agent of the association supervises the sale and shipment in the interest of the producer, while in the second case the field agent supervises the sale and shipment in the interest of both parties.[14] In either case the price is determined by the association and the packer, although as a guaranty to the producer there is a stipulation in the contract, as we have already noted, that the association cannot sell below a minimum fixed by the producer if ten days' notification is given to the association.

The Western Cattle Marketing Association has now added a stocker and feeder department which renders service to members in bringing buyers and sellers of such stock together. The feeder advises this department as to the number and character of animals which he desires, and the feeder department endeavors to find a grower who has such animals for sale. No charge is made to the buyer; the seller pays 50 cents per head on grown cattle and 25 cents per head on calves. The association conducts a supply business for members and also assists in financing members' operations.

The number and value of cattle handled by the Western Cattle Marketing Association are as follows:

| Year | Animals Handled | Value |
|---|---|---|
| 1925 | 142,795 | $ 7,247,475 |
| 1926 | 186,468 | 9,997,759 |
| 1927 | 162,108 | 8,076,696 |
| 1928 | 122,329 | 10,116,176 |
| 1929 | 108,176 | 8,502,356 |

[14] "The field agent is responsible for the grading of the cattle according to government standard grades, pricing them according to quality, ordering the cars, seeing that the cattle are properly loaded and billed, and (if the packer has not sent his own shipper) going with the shipment." Hagen, *American Co-operation,* 1927, Vol. I, pp. 598-99.

Proponents of the Western Cattle Marketing Association feel that they have three distinct achievements to their credit: [15]

(1) The association has put the marketing of cattle in this section on a basis of grade, with reasonable differentials for quality.

(2) It has systematized the flow of cattle to market, smoothing out seasonal irregularities to an important extent, and going a considerable distance toward maintaining a flat price basis for the whole season—like the fluid milk producer.[16]

(3) It has changed the basis of price making. It is claimed that cattle were formerly priced on the basis of Mid-West markets *less* the cost of transportation to those markets. Since this is a definitely deficit rather than surplus region, the producer felt that he should have the price of the Mid-West market *plus* cost of transportation from the Pacific Coast. These bald formulae of price rather overlook the fact that the two areas shade into one another and that a large producing region is about equidistant from both markets. However, the Western cattlemen feel that they have brought prices in their territory into a sounder relationship with those in other important markets, all demands and all supplies being taken into account.[17]

[15] *Ibid.*, 1928, Vol. II, p. 273.

[16] *Ibid.*, p. 277.

[17] "We have succeeded in maintaining a steady price level here on the Pacific Coast on a parity with Eastern markets, whereas formerly we always took a price at least cost of transportation below Eastern markets. This year we have even a better record, and our price here on the Coast has been substantially above the price of a similar quality cattle on the Eastern markets." Hagen, R. M., *Western Cattle Markets and News*, July 14, 1930.

Compare Voorhees, E. C., and Koughan, A. B., "Economic Aspects of the Beef Cattle Industry," California Agricultural Experiment Station *Bulletin* No. 461, pp. 72-83.

The Western Cattle Marketing Association is at all events a striking experiment in the possibility of setting up a commodity marketing organization in the livestock field on the general principle of merchandising by specification with prices determined by skilful adjustment of supplies to demand. Obviously it is primarily applicable to the distinctive conditions of the Pacific Coast markets rather than to the great market centers farther east. Its inclusion in a national organization for livestock marketing will be discussed in Part III.

# PART III

# CURRENT DEVELOPMENTS

## CHAPTER XIII

## HAS CO-OPERATION REDUCED MARKETING COSTS OR IMPROVED SERVICE?

In Parts I and II of this book we have presented a narrative and descriptive account of the development of co-operative marketing in the United States up to the latter part of the year 1929. At that time a new factor came actively into the situation, namely, the Federal Farm Board. In our closing chapters we shall set forth the proposals which the Farm Board has made in the field of livestock marketing, and analyze the issues raised by this new development. Before attempting this task, however, it seems desirable to review briefly the results accomplished by co-operative shipping and terminal selling agencies as they had developed in the period before the coming of the Farm Board. It will be convenient to divide this analysis into two parts: (1) the influence of co-operative organization upon marketing practices and costs, which will be dealt with in this chapter; and (2) the relation between co-operative methods and price results, which will be dealt with in the following chapter.

It was noted in Chapters III and VIII that those who attempted formal explanation of the benefits which might be expected from co-operative marketing of livestock had three general proposals to offer: (1) elimination or at least drastic reduction of the burden of competitive solicitation of business and an accompanying reduction in the number of middlemen; (2) more efficient and economical handling of the product because of the closer identification of the interests of the producer and the marketing agent, who, under the

co-operative system, becomes his direct employee; and (3) elimination of inequalities or discriminatory practices and securing payment to the individual producer in more strict accordance with the quality of his product.

Unfortunately the character of the questions involved, and the scarcity of data of the sort which would be necessary for quantitative proof, make it difficult to say just how fully these ideals have been achieved. Likewise the issue is further complicated by the fact that changes in the marketing situation and in the general conditions in the industry have come about so rapidly and extensively as to render comparisons between one time and another difficult or even misleading. In spite of these limitations, however, we believe that it is worth while to take such account as we can of the results which co-operative effort in livestock marketing has had in terms of marketing costs. It will serve at least to reveal the character of the situation which the Federal Farm Board found.

## I. THE SHIPPING ASSOCIATION'S EFFORTS TO LOWER COSTS

It was strongly urged by co-operative organizers that the establishment of shipping associations would substitute one paid manager for many competing buyers and thus reduce the cost of soliciting business. This hope has not been realized in any large way in practice.

Since the amount of solicitation depends to some extent upon the number of persons engaged in the business, one frequently hears it argued that economy has been secured because there are today fewer private buyers than there were in 1916 or some other date during the early days of the movement. Whether there is actually a smaller number of persons now engaged in the business of private livestock buying it would be

impossible to say, since there is not and never has been an actual count of persons so employed. Private testimony and personal observation indicate that in some areas where private buyers once flourished they have become practically extinct. In others the private buyers continue to occupy a field adjacent to that served by the shipping association, or to share business with the co-operatives in the same area. In such cases producers appear to have come to the opinion that a given trader is fair in his dealings, secures good market outlets, and pays the farmer a reasonable price for his stock. Some producers may prefer to deal with him rather than with the co-operative either because of personal likes and dislikes or because they are unwilling to accept the responsibilities of membership or possibly the supervisory activities of the co-operative. We may thus have a private buyer and a farmers' association where formerly there were two private buyers, or may even have a co-operative continuing to operate and prosper moderately as an additional agency in the community.

In any event the mere counting of numbers would prove little. Even if we could show a net decline in the number of private buyers during the past decade, we could not safely ascribe it to a clearly demonstrated superiority of the co-operative method of performing the shipping function. Two other influences have been at work, both of which are important, although it would be futile to attempt to compute their relative weight. These two forces are the increase of country buying by packers either directly through track buyers or indirectly through concentration stations, and the growth of truck hauling over much greater distances than those served by the old local shipping points. The first brings the processor closer to the producer; the

second brings the producer within easier access of the market in which the processor buys.

Packer buyers and re-load station managers in the country add new local middlemen but to a greater or less degree dispense with local buyers. This means that the terminal packer is coming into the country to solicit livestock, and it probably adds to rather than lessens the number of middlemen at country stations.[1]

The growth of truck hauling has eliminated some country buyers (and also some local co-operative shipping associations). Sometimes, however, the trucker who hauls livestock himself becomes a trader either habitually or on occasion. Particularly on individual animals or small lots it may be more agreeable both to him and to the farmer to have the transaction an outright sale rather than for him to haul the stock to market and bring back the proceeds to the owner less his transportation charge. If all such traders were counted, and country buyers for packers as well, it is quite possible that the number of local middlemen today would be at least as great as previously.

The real point of the co-operative proposal is that the number of middlemen be reduced by having producers take over the responsibility of bringing their stock voluntarily to a small number of shipping agents of their own choosing, each of whom could handle a large volume of business at a small expense per unit. Experience shows that the co-operative system has not thus far reduced the burden of the assembly function to the extent anticipated. It was assumed that the producer members of a group marketing enterprise would themselves voluntarily bring forward their produce and turn it over to their own marketing agency without its having to incur the expense incident to locating and

[1] Though this would be offset in some measure by the lightening of the work of commission selling at the terminal.

attracting a profitable volume of business. In practice it has rather generally appeared that livestock producers were not so wholeheartedly committed to the co-operative undertakings in their vicinities as to turn an adequate volume of supplies into these channels without constant and aggressive solicitation on the part of the management of these nominally co-operative group agencies. It is practically universal experience that the shipping association manager who does not wish to have his association die on his hands must continue to carry on organizational work and engage in solicitation of business from the producers of his territory. Probably the competition from the packer's "track buyer" or concentration point manager and from the truckman is as keen today as was that of the numerous local buyers in the previous period. The really successful shipping association manager has been the one who has been alert to press the claims of his association in competition with all these non-co-operative agencies, and not infrequently also with another co-operative association in overlapping territory. Hence savings through the reduction of solicitation expense, while not everywhere absent, have been insignificant as compared with the hopes entertained when the shipping association movement was launched.

A second promise of improvement in marketing facilities by co-operative action which has generally been stressed is that co-operation will result in the introduction of better methods of physical handling of the product.[2] Considerable effort has been directed to this end by local shipping associations, particularly

[2] While this argument is perhaps somewhat more prominent in discussions of the marketing of highly perishable products, or those which go to the consumer directly in the form in which they are produced by the farmer, it has been by no means absent from discussions of the constructive possibilities of co-operative marketing of livestock.

where local undertakings have been gathered into a county unit of management or where local agencies have been federated into a state association or had the educational services of Extension Departments and Experiment Stations.

Substantial progress has been made toward better control of feeding prior to delivery, better care of the stock in transit (whether in wagon, truck, or freight car), greater care in loading and unloading, the avoidance of overcrowding, the improvement of railway facilities, better yard service, and other details of handling.[3] The co-operatives would themselves be the first to admit that an enormous amount of work yet remains to be done in this direction, and that many agencies outside the co-operative movement are likewise giving support to such efforts. At the same time it is our belief that the co-operative shipping movement can be

[3] "There are possibilities of greater economies in handling livestock through associations. Wide variations in internal efficiency, including marketing costs, shrinks, shipping margins, and losses from dead and crippled animals have been observed among shipping associations . . . The most outstanding difference in the expenses of these two associations was the difference in the insurance expense which for the association with highest expense was over three times as great as in the lower . . . It is, of course, appreciated that the manner of preparation for market used by the member has a great deal to do with shrinkage. It is quite generally conceded, however, that members of co-operative shipping associations suffer less shrink than do independent buyers. There is less incentive to "fill" hogs when they are shipped co-operatively because the member gets paid for destination weight only . . . Some associations have sharply reduced their losses from cripples. One group of six associations in southeastern Iowa had one cripple out of 365 shipped in 1923; in 1924 the number crippled fell to one in each 627, a reduction of 42 per cent; and in 1925 were further reduced to one in 687, or 47 per cent below the figure for the first year." Thompson, S. H., "Major Problems of Local Shipping Associations," *American Co-operation,* 1926, Vol. I, pp. 81-86.

given definite credit for improvement in the physical handling of livestock during the initial stages of the marketing process.

One of the most fully organized and extensive instances of this sort of activity is to be found in the Livestock Loss Prevention Association of Ohio. It consists of representatives of farmers, railroads, private shippers, co-operative associations, stockyards, livestock exchanges, packers, and educational agencies. The co-operative organizations have proved to be the most effective channel through which this work can be carried on, and during the current year a "livestock loss prevention contest" has been organized among the co-operative shipping associations with two series of first, second, and third prizes as follows: (a) for the manager or association showing the least actual loss during the period of one year, (b) for the manager or association showing the highest percentage reduction in losses over the same period. The beneficial results of this work are already clearly marked, and an association along practically identical lines has been started in Michigan. Efforts have been launched toward broadening the project to national scope.[4]

In lessening inequalities or discriminations likewise it seems clear that co-operatives have come measurably close to the ideals which are supposed to animate co-operative undertakings. Of course there are practical difficulties in handling transactions in such a way as to reflect perfectly to the producer the difference in value which the consumer buyer pays for different

[4] This work should also be credited with an important by-product in the way of better accounting practices. In order to qualify in the loss prevention contest a manager must have an adequate set of records and accounts. Only the co-operative part of the shipping business was sufficiently well organized and the accounting methods sufficiently systematized to permit of being included in the contest.

units of product. But there is abundant evidence of the effort constantly exerted by livestock co-operatives to perfect the best method within the practical limitations imposed upon them, and to return to each shipper the market value of what he ships.[5]

These attempts have already been traced in Chapters III and V, in which we expounded the particular methods of accounting and carefully considered procedures for the pro-rating of expense and the apportioning of returns which co-operative shipping associations have gradually been evolving in their desire to effect the most equitable plan of settlement. In improving these methods the state Experiment Stations and Extension Service on the one hand and state federations of shippers or marketing departments of general farmers' organizations on the other have been of great assistance. Of course much still remains to be done, but certainly the co-operatives should be given credit for having produced fruitful results from their efforts to make payment as equitable as possible.[6]

These efforts thus far have been of a rather conservative type, attempting to prevent inequalities within the existing method of handling transactions rather than to make the system itself more equitable in character. For example, the practice of pooling which is used by co-operatives handling many other agricultural commodities has not gained the support of livestock

[5] In proportion as this result is obtained there will be a tendency to discourage the production of animals of inferior quality and to encourage the production of those which command a premium insofar as such discounts and premiums are not merely the reflection of relative costs of producing the different qualities of product.

[6] Robotka, Frank, "Pro-rating Problems of the Local Manager," *American Co-operation*, 1926, Vol. I, pp. 96-106.

Ashby, R. C., Illinois Agricultural Experiment Station *Bulletin* No. 331, p. 353.

organizations thus far.[7] This producer group appears to be directing its attention most aggressively to the possibilities of further removal of price inequality through stabilization of the prices paid in one market as compared with another, or in the same market at one time as compared with another. These proposals we shall examine in some detail in later chapters.

## II. THE RECORD OF THE TERMINAL COMMISSION COMPANIES

Practically the same issues of economy and efficiency can be raised concerning the terminal commission companies as those which we have just been considering with reference to the local shipping associations. (1) Have they reduced the number of middlemen and/or the burden of labor and expense incidental to securing business? (2) Are they more efficient and economical in their methods of physical handling? (3) Have they reduced inequalities in the distribution of returns among shippers?

On the first of these issues the answer must be straddling and qualified rather than an outright "yes" or "no." Changes in the whole terminal market situation have made this a peculiarly difficult time to measure results. With a large volume of stock moving to market during the war and immediate post-war years, the number of commission merchants operating on these

[7] The co-operative which employs the pool method pays each producer a price which is the average of a larger or smaller number of separate transactions. This distributes the benefits of particularly favorable transactions over all who participate in the pool, and likewise distributes the disadvantage of unfavorable sales over the whole group, rather than having certain individuals gain the whole advantage or suffer the whole loss of exceptionally favorable or unfavorable conditions which may govern the market in which his individual product is actually sold. See Nourse, E. G., *The Legal Status of Agricultural Co-operation*, Chap. VII.

markets was naturally expanded.[8] Since that time there has been a decline both in the total volume of the market movement and in the percentage of the total which moves to the large stockyards markets as compared with that going direct to packers and butchers (see pages 183–87). This would naturally be expected to bring about a decrease in the number of commission men in the terminal markets. Any quantitative statement as to what has actually taken place in this direction is made difficult by reason of the fact that a given firm or number of firms may continue to operate, but with a smaller number of salesmen in the yards or with decreased business in the hands of each of these salesmen. Or, on the other hand, the dissolution of a given commission firm may be followed by the registration of its partners or even employees as independent operators on the exchange. Even on markets where there

[8] "The commission business had been rather an attractive business, rather a lucrative business, resulting in the organization on this market of some 30 or 35 commission firms. I think there were 33 here when we started, whereas it appeared that 5 or 6 good commission firms could have taken care of all the business coming here to a great deal better advantage than could the 33. The result of having a development along that line was that many people got into the business who were not altogether suited to it. This developed conditions or practices among them which were not particularly to the advantage of the producer or to the livestock which they were selling . . . There were some men in the business who had no right to be in the business because they had no ability. There were perhaps some, just as you would find in any other line of business, who were not of the character of men to whom you would want to entrust your business. It will be seen, therefore, that a number of conditions existed on the market which did not give to the producer the kind of service he wanted, and it was with the hope of getting a better service and overcoming some of these conditions that the shippers began to think of and eventually to organize their own selling agency on the market." Montgomery, J. S., "The Organization and Work of the Central Co-operative Commission Association," *American Co-operation*, 1926, Vol. I, p. 170.

is a fairly clear trend toward reduction in the number of middlemen [9] it would be hard to translate this into positive evidence that the business of handling livestock transactions today is carried through with a smaller labor force than would be the case were co-operative organizations absent from the market. In fact the insistence of the co-operative shipper upon receiving something approximating individual handling of his small shipment has decidedly increased the expense burden on co-operative terminal commission companies owing to the need of extra sorting, penning, weighing, and the like. As the manager of one of the largest of these agencies points out:

> An interesting comparison is that of the amount of work done by a co-operative in handling its business as compared with a large old line firm. For instance, if the Chicago Producers and a large old line firm on the Chicago market each handled 1,500 loads in one month's business . . . out of 1,500 loads to the Producers 1,000 loads would be co-operative shipping association loads and around 500 individual loads, whereas in the case of the other firm probably 1,100 or more would be individual shipments and 400 or less co-operative association shipments; thus to handle this volume of business the Producers would have to do twice as much work in the yards and considerably over twice as much work in the office as the other firm.
>
> The additional money received in commissions by the Producers on their 1,500 loads as compared with the money received by the large old line firm on their 1,500 loads will not begin to cover the extra expense. This additional money is not due to any difference in rates of commission charged, since all firms on the Chicago market charge the same rates. However, the commission rates on co-opera-

[9] For example, there were in Chicago five years ago 143 commission firms. Now there are 113 registered under the Packers and Stockyards Administration, but some of these have shrunk to such small proportions that they merely occupy desk room with some other concern and no longer clear transactions under their own names. The business of the Chicago stockyards is carried on through only 64 offices.

tive shipments are a little higher and there is an added pro-rating charge, thus the greater the percentage of co-operative shipments the greater the revenue per car. In other words, the old line firm would probably receive about 14/15 as much commission as the Producers, but they would not have to do more than about half as much work.

It is generally conceded that no commission firm could exist on the Chicago market, providing they had an average amount of business, and be able to render satisfactory service if all that business were co-operative shipping association business, and there were no straight load consignments. The average number of owners to a co-operative shipping association load runs from 9 to 10 month after month, running all the way from 2 or 3 up to 50 or 60 to a load. Local shipping associations could help in this problem if they would do the pro-rating at home.[10]

While some progress has been made toward having returns pro-rated at home, and it appears that the present tendency toward concentrating country shipping into larger units will work further improvement in this direction, it is obvious that the emphasis upon individual returns to the shipper, which is a basic factor in the co-operative method, operates in the direction of more expensive terminal handling methods.

Likewise the terminal commission companies did not find such a spontaneous flow of business into their hands as to give them either the low unit cost or the commanding position in the market which they conceived to be desirable. Hence they felt constrained to keep field men moving through the producing territory and to push other means for developing business with a zeal (and accompanying expense) not nearly as different from that of the "old line" companies as is contemplated in the economy argument of the co-opera-

[10] Swanson, D. L., "Problems of the Terminal Co-operative," *American Co-operation*, 1927, Vol. I, pp. 493-94.

tive theory.[11] Obviously this situation has differed from one market to another, and the patronage dividends returned out of commissions and the reserve built up by some of the commission associations seem clearly to indicate that costs of securing as well as handling business have been reduced. Co-operatives at other markets, however, have shown but meager accomplishments in this direction. The continued reaching out toward a form of organization in which business would be contractually bound to the co-operative agency suggests that the continued need of soliciting business has been considered a weakness of the loosely organized co-operatives of the past.

It is not altogether easy to secure reliable figures as to savings in marketing expense which have been effected by the various terminal commission agencies. The several associations present figures of "savings" which represent the difference between commissions charged (and other earnings) and total operating costs.

[11] "In the past, frequently too much stress has been placed on publicity, advertising, and field service (the latter including attendance at shipping association annual meetings, Farm Bureau meetings, and cattle tours)." *Ibid.*, p. 491.

In some cases also field men have undertaken activities which were the outgrowth of organizational politics. That is, they have been industrious to discredit and tear down co-operative organizations with which they were unfriendly. If such activities were allowed to continue, co-operatives would find themselves in a position as bad as that of private firms in the days of keenest competition—perhaps even worse. The experience of the Central Co-operative Association relative to field service is of interest. The manager in his annual report for 1927 said: "We could materially reduce our operating expense by entirely discontinuing our field service. We find, however, that this field service is greatly appreciated, especially in the communities where new associations are being started. We find also that a certain amount of this contact is necessary in order to keep our member associations supporting their own organization at the market as they should." Field service cost was $1.55 per car in 1927, $1.29 in 1928, and $1.46 in 1929, while total costs per car were $11.41, $11.80, and $11.11 respectively.

SAVINGS MADE BY CO-OPERATIVE COMMISSION ASSOCIATIONS, 1922–1929
(In dollars)

| Name of Agency | 1922 | 1923 | 1924 | 1925 | 1926 | 1927 | 1928 | 1929 |
|---|---|---|---|---|---|---|---|---|
| Farmers' Union Commission Associations: | | | | | | | | |
| Chicago | [a] | [a] | [a] | [a] | [a] | [a] | [a] | [a] |
| Denver | −81 | 1,935 | −4,048 | 242 | 4,067 | 6,923 | 13,821 | 13,765 |
| Kansas City | [a] | 51,265 | 79,750 | 30,136 | 56,737 | 4,709 | 21,835 | 32,328 |
| Omaha [b] | 85,378 | 113,898 | 131,211 | 29,175 [c] | 76,080 | 56,860 | 74,355 | 64,145 |
| Sioux City | [a] | 51,265 | 79,750 | 30,136 [d] | 56,737 | 39,693 | 49,112 | 45,910 |
| St. Joseph [e] | 86,610 | 138,662 | 130,249 | 93,544 | 101,202 | 81,644 | 84,042 | 71,429 |
| East St. Louis | 80,474 | 153,256 | 162,168 | 97,025 | 109,283 | 109,310 | 103,592 | 97,710 |
| St. Paul | 5,108 [f] | 13,248 | 14,693 | 13,757 | −820 | 6,971 | 1,744 | 9,130 [g] |
| Central Co-operative Association: South St. Paul [h] | 101,753 | 96,374 | 101,510 | 113,506 | 147,431 | 108,470 | 101,287 | 117,233 |
| Equity Co-operative Livestock Sales Association: Milwaukee | 2,986 | 11,307 | 10,650 | 7,358 | 10,913 | [a] | [a] | [a] |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Producers Commission Associations: | | | | | | | | |
| Buffalo | −678 | 31,474 | 28,345 | 13,574 | 4,784 | 10,640 | 13,042 | 19,647 |
| Chicago | 22,534 | 125,758 | 126,411 | 63,208 | −9,327 | 34,353 | 25,307 | 20,436 |
| Cleveland | — | 12,836 [i] | 31,727 | 3,297 | 6,167 | 5,374 | 5,054 | −4,648 |
| Cincinnati | — | — | — | 19,898 [j] | 29,342 | 36,589 | 56,062 | 52,069 |
| Detroit | 12,645 | 18,556 | 17,585 [k] | [k] | 16,433 | 17,171 | 17,545 | 18,448 |
| Evansville | — | −401 [l] | 1,008 | 4,177 | 4,560 | 5,224 | 4,558 | −2,111 |
| Fort Worth | −2,412 | 2,195 | 3,002 | −234 | 4,220 | 331 | [m] | [m] |
| Indianapolis | 28,836 | 79,705 | 77,405 | 46,853 | 40,356 | 45,546 | 71,269 | 82,085 |
| Kansas City | — | 1,452 [n] | −14,820 | −15,211 | −2,441 | 868 | 2,805 | 11,042 |
| Peoria | 2,396 | 15,480 | 20,952 | 20,112 | 17,584 | 14,507 | 24,580 | 29,956 |
| Pittsburgh | — | 4,127 [o] | 12,041 | 51 | 1,002 | 230 | 11,754 | 11,370 |
| Sioux City | — | — | 1,238 [p] | 3,789 | 1,062 | 3,404 | 13,302 | 8,384 |
| East St. Louis | 43,399 | 85,237 [q] | 77,681 | 56,170 | 70,878 | 72,411 | 70,455 | 65,376 |

[a] Data not available.

[b] Savings in 1919, $44,081; in 1920, $61,269; in 1921, $90,545.

[c] Commission rates for 1925 approximately 50% of exchange rates.

[d] Commission rates for 1925 approximately 70% of exchange rates.

[e] Savings in 1919, $8,068; in 1920, $22,268; in 1921, $44,798.

[f] Initial year, beginning May 16.

[g] Besides large amounts invested in office building and general Farmers' Union organization work from 1926 forward.

[h] Commission rates approximately 75% of exchange rates.

[i] Initial year, beginning May 15.

[j] Initial year, beginning Feb. 10.

[k] 1924 and 1925 combined.

[l] Initial year, beginning Sept. 1.

[m] Discontinued.

[n] Initial year, beginning March 5.

[o] Initial year, beginning Oct. 8.

[p] Initial year, beginning March 15.

[q] Commission rates 1923 to the present approximately 20 per cent below exchange rates.

The table on page 236 shows the amount of such "savings" for the twenty-three principal co-operative terminals in the period from 1922 to 1929 inclusive.

It is apparent that these savings have amounted to a considerable sum during the last ten years or so.[12] What they have meant to the producer has depended in part on the policy of the several associations as to the disbursing of these funds (see table on page 239). Most of the Farmers' Union houses until recently made a practice of distributing their savings quite promptly in the form of patronage dividends, relying upon this as a means of attracting further patronage.[13]

[12] In addition to the savings shown in the table, several of the co-operative agencies (see footnotes to table on p. 237) have given their patrons the benefit of rates lower than those charged by the members of the livestock exchanges on the respective markets. And even at points where they have followed standard exchange rates they are rather disposed to take credit for the fact that their ability to do business on these rates has been a factor in making it impossible for the exchange to get increases in its rate schedule. They point out that during periods of increasing market receipts there is a tendency for more firms to go into the commission business, and that when the volume of receipts subsequently falls off and business dwindles to the point where the small firms cannot make a living wage the latter initiate a movement for the advance of commission rates. Inasmuch as these small concerns generally constitute a majority in the membership of the exchange, it is not likely to be difficult to secure approval for such a revision. Since the coming of the Packers and Stockyards Administration, however, such changes have required the approval of this government bureau. Approval will be granted only if it can be shown that existing charges are unreasonably low. Such a showing is made difficult if co-operatives are making substantial savings under the existing rate, and still more difficult if they are flourishing on a rate somewhat below that charged by exchange members.

[13] The Chicago and St. Paul houses have been exceptions to this rule during recent years, as they have felt it necessary to use earnings for organizational work and the enlargement of their volume of business. Under the Union scheme of organization, likewise, savings made in one department may be used for organizational work in other departments. It is understood

PATRONAGE DIVIDENDS PAID BY CO-OPERATIVE COMMISSION ASSOCIATIONS, 1922–1929
(In dollars)

| Name of Agency | 1922 | 1923 | 1924 | 1925 | 1926 | 1927 | 1928 | 1929 |
|---|---|---|---|---|---|---|---|---|
| Farmers' Union Commission Associations: | | | | | | | | |
| Chicago | [a] | [a] | [a] | [a] | [a] | [a] | [a] | [a] |
| Denver | — | — | — | — | 1,007 | 3,782 | 6,737 | 6,753 |
| Kansas City | 14,146 | 29,678 | 36,061 | 16,264 | 12,997 | — | 20,815 | 25,328 |
| Omaha | —[b] | —[b] | —[b] | —[b] | —[b] | —[b] | —[b] | —[b] |
| Sioux City | [a] | [a] | [a] | 19,124 | 56,737 | 30,671 | 39,544 | 35,675 |
| St. Joseph | 76,035 | 126,307 | 116,651 | 66,861 | 72,744 | 58,444 | 64,770 | 52,486 |
| East St. Louis | 72,260 | 153,256 | 160,598 | 84,554 | 89,491 | 97,647 | 95,869 | 92,855 |
| St. Paul | 4,665 [c] | 11,194 | 12,789 | — | — | — | — | — |
| Central Co-operative Association: South St. Paul [d] | 78,323 | 72,753 | 90,758 | 93,885 | 128,071 | 104,040 | 99,513 | 103,603 |
| Equity Co-operative Livestock Sales Association: Milwaukee | 2,981 | 10,248 | 10,500 | 7,000 | 6,886 | 8,446 | 9,193 | 9,071 |
| Producers Commission Associations: | | | | | | | | |
| Buffalo | — | 24,246 | 19,718 | 12,010 | — | 8,464 | — | — |
| Chicago | — | 69,084 | 103,462 | 82,540 | — | — | — | — |
| Cleveland | — | — | 25,000 | — | — | — | — | — |
| Cincinnati | — | — | — | 10,082 [c] | 14,744 | 17,505 | 32,436 | 33,952 |
| Detroit | 7,000 | 10,000 | — | 16,250 | 14,215 | 14,215 | 15,532 | 16,526 |
| Evansville | — | — | — | — | — | — | — | — |
| Indianapolis | — | 35,715 | 49,934 | 42,453 | 35,088 | 26,187 | 35,887 | 36,042 |
| Kansas City | — | — | — | — | — | — | — | — |
| Peoria | — | — | — | — | — | 26,187 | 35,887 | 36,041 |
| Pittsburgh | — | — | 8,813 | — | — | — | — | — |
| Sioux City | — | — | — | — | — | — | 8,590 | — |
| East St. Louis [d] | 40,408 | 83,673 | 58,932 | 42,390 | 46,808 | 45,856 | 53,751 | 45,891 |

[a] Data not available.
[b] Practically all savings distributed as refunds. See table on pp. 236-37.
[c] Initial part year.
[d] Operating under reduced commission rate.

Taking the St. Joseph association as an example, patronage dividends have run from 25 per cent in the first two years of operation to more than 75 per cent of the amount of commission charges in the largest year. Terminal commission agencies affiliated with the National Livestock Producers Association have shown more of a tendency to plow savings back into the business by using them for organizational and educational work or for the accumulation of reserve funds to be used in expanding new lines of activity, particularly credit associations. Earnings on the commission business also have had to go to defray losses incurred by the feeder pools. The Central Co-operative Association of St. Paul has made one of the most favorable showings among co-operative commission agencies. From the beginning it has operated on a scale of commission charges approximately 25 per cent below regular livestock exchange rates on its market;[14] in addition it has refunded about 30 per cent of the commissions actually paid in. It has also made substantial additions to its reserve fund, which now amounts to approximately $120,000—about four times the amount of outstanding capital stock.[15]

The only satisfactory way to answer the question whether or how much co-operative commission associations have reduced costs of handling the business would

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that savings from certain livestock commission associations have been used to build up the Farmers' Union grain marketing organization and their insurance business.

[14] Montgomery, *American Co-operation*, 1926, Vol. I, pp. 173-75. The charges are stated in U. S. Department of Agriculture *Technical Bulletin* No. 57 (p. 96) as being "approximately 20 per cent below the exchange rates on the St. Paul market." Mr. Montgomery's claim of a 25 per cent reduction was challenged by the Farmers' Union interests, and he has defended his estimate in great detail in the *Co-operative Shipper* for April, 1930 (pp. 2-4).

[15] *Co-operative Shipper*, February, 1930, p. 3.

be to compare their costs with those of private firms. Unfortunately data for the latter are not available in a form strictly comparable with those given out by the co-operative agencies. In connection with rate hearings conducted under the Packers and Stockyards Administration at Omaha, Sioux City, and Kansas City, however, the books of many private commission

OPERATING COST PER CAR FOR CERTAIN CO-OPERATIVE COMMISSION AGENCIES, 1923-1929
(In dollars)

| Name of Agency | 1923 | 1924 | 1925 | 1926 | 1927 | 1928 | 1929 |
|---|---|---|---|---|---|---|---|
| Farmers' Union Commission Associations: | | | | | | | |
| St. Paul | 15.45 | 15.72 | 16.54 | 20.87[a] | 18.94[a] | 21.34[a] | 21.69[a] |
| Omaha | 4.75 | 4.69 | 4.87 | 8.21 | 10.06 | 8.73 | 9.09 |
| St. Joseph | 5.77 | 7.02 | 8.37 | 8.27 | 9.23 | 8.88 | 9.38 |
| Central Co-operative Association: | | | | | | | |
| South St. Paul | 8.64 | 9.55 | 9.92 | 9.84 | 11.41 | 11.80 | 11.11 |
| Producers Commission Associations: | | | | | | | |
| Buffalo | 9.33 | 9.98 | 11.81 | 12.85 | 11.56 | 10.94 | 10.19 |
| Chicago | 11.94 | 12.39 | 14.85 | 19.02 | 17.66 | 18.59 | 18.59 |
| Cincinnati | — | — | — | 16.04 | 15.53 | 14.36 | 16.50 |
| Indianapolis | 9.41 | 10.10 | 12.08 | 12.68 | 12.14 | 10.76 | 10.20 |
| Kansas City | — | 22.16 | 21.88 | 18.29 | 17.95 | 17.44 | 16.32 |
| East St. Louis | 10.60 | 10.94 | 11.99 | 11.47 | 11.71 | 12.36 | 12.98 |

[a] Includes expense of general organization work.

firms have been gone over by government auditors, and careful computation has been made of average costs of doing business. Before referring to these figures we may profitably see what showing is made by the co-operatives, note the differences between one terminal market and another, and compare costs of a given house for successive years to see whether they are being lowered as the associations become better established and build up a larger volume of business. The table on this page presents these figures for ten houses

belonging to the several systems and located on both large and small markets geographically widely distributed.

It may be observed that costs at Chicago have been comparatively heavy throughout the period and have been on a particularly high level during the past four years. One explanation which has been given of this is the fact that there is extreme irregularity in volume of receipts on the Chicago market and that this necessitates the maintenance of a relatively large yard and office force in order to give the best of service at the peaks, entailing higher unit costs during periods when receipts are light. It is probably also true, however, that a part of this high cost is due to relatively heavy emphasis on field service and propaganda work.[16] The Farmers' Union house at Omaha likewise shows a doubling of expense in recent years. For both, the increase is probably in part due to a generally higher price level of the items entering into operating costs, for every house shows some increase. At the same time the manager of the Central admits (see footnote 11, page 235) that its increase is in part due to competitive organization work, and the same is known to be true with reference to both Farmers' Union and Producers houses. In other words, we have clear

[16] "We are still compelled to drive our cattle and hogs from the unloading chutes to the pens, only the sheep being delivered by the stockyards company. On practically all the other principal markets this work is done by the stockyards companies. The close sorting and selling by grade that has been in effect in our hog alleys since 1926 continues, and naturally that has made our work more expensive. The keenest sort of competition from the one hundred odd commission firms on this market has made it necessary for us to employ the best of personnel, especially executives and salesmen. Our rents and other expenses of conducting our business have been fully as high this year." *Report* of the Eighth Annual Meeting of the Chicago Producers Commission Association, 1930, p. 12.

evidence here of the expense of competition among co-operatives which is not contemplated in the theory of co-operation.

It appears that houses such as Indianapolis and Buffalo, which enjoy a relatively non-competitive position in their respective territories, have been able to keep expenses at a low figure. The Buffalo situation is favorable in that a large part of receipts at that market are shipped by train, thus relieving the terminal agency of the necessity of handling large numbers of small lots which are trucked in. While Indianapolis receives many shipments by truck, its volume of business is so large and the facilities at the yards so good that it is able to make a very favorable showing. Cincinnati's high per car expense is to be explained in part at least by the large number of very small shipments of calves and other stock derived from the surrounding dairy region. This agency also has incurred rather heavy field expense in attempting to develop tributary territory in Kentucky and Tennessee.[17] No associations in this group of ten show a decrease in per car charge with growing volume and longer experience in the business sufficient to offset the general upward trend in prices of items entering into their cost of doing business.

With these co-operative costs in mind we may now return to the cost computations made by the Packers

[17] Several of the smaller terminal commission agencies are just barely making expenses. This raises the question of whether they are swamped by an inordinate amount of field work owing to the fact that they were established prematurely before the ground of co-operative support had been adequately prepared. The mere fact of their failing to make pecuniary profits, however, is by no means conclusive evidence that such a co-operative terminal agency should be abandoned, since it may be rendering its patrons a valuable service even though there is no actual money saving (compare p. 249).

and Stockyards Administration from its examination of the records and accounts of many private firms. In the case of Omaha the government representatives reported: "When we had finished calculating . . . we had a cost account which totals $13.25 for selling a car of cattle, $9.85 for a car of hogs, and $13.05 for a car of sheep." [18] As a result of the Sioux City investigation the Packers and Stockyards Administration estimated (May, 1930) the necessary cost of doing business at that point as $14.90 per car for cattle, $11.90 for hogs, and $14.40 for sheep. This includes a charge of $1.00 for "management by owner," 25 cents for "uninsurable but determinable risks," and 75 cents for "indeterminable contingencies." The latter should apparently be added to the Omaha figure previously quoted to bring it to a fully comparable basis. To the extent that these figures may be compared with the operating costs per car of the co-operative agencies, they seem to put the performance of the co-operatives in a favorable light.

A second benefit which it was hoped would accrue from the advent of co-operative terminal commission associations was an improvement in methods of physical handling and the elimination of wasteful practices. On this count it is our belief that the efforts of the terminal commission companies have been of real value. They have participated, perhaps more spontaneously than some other agencies, in the campaign to

[18] Hearings before the Secretary of Agriculture re the American Livestock Commission Company et al., Omaha, Nebraska, Packers and Stockyards Administration *Docket 143*, Oral Argument, p. 120. In the same document (p. 133) it is stated: "The reason assigned by those commission men who testified for believing that the increase in rates was justified was the increased cost of living and decline in receipts at Omaha." This testimony may well be compared with our discussion on p. 232.

reduce losses from rough handling. Their feeling of interest in their member patrons has likewise prompted them to use the utmost zeal in reducing the loss from dead and crippled animals and in seeing that, where such losses are unavoidable, the patron receives the full salvage value of his damaged product. This is in contrast to the practice of the less scrupulous private concerns which have sometimes turned profit from this source into their own pockets or those of other individuals closely affiliated with them.

The co-operatives also pride themselves upon their aggressive and effective action in securing settlement for losses from the railroads. In this it appears that they have perhaps not excelled the performance of the best private concerns but, instead of deducting 15 to 33⅓ per cent of collections for the cost of the service as the private agencies generally do, the co-operatives render this service gratis. They have not, however, introduced any noteworthy innovation in handling practices designed to increase efficiency or economy, such as the elimination of the wasteful grain fill given just prior to slaughtering.[19]

[19] This is not intended to express a snap judgment that no grain should be fed in the terminal yards. As pointed out by Professor R. C. Ashby of the University of Illinois, "feeding on the market is primarily an equalizer of shrink. In the nature of the conditions under which livestock is transported to market, some long distances and some short, it is natural that some shrink considerably more than others. It is also evident that those shipped long distances are actually in need of feed upon arrival at the market." (Excerpt from letter.) It does seem, however, that with careful study a humane and equitable practice could be developed which would save a considerable amount of the expense now going to purchase food which cannot possibly be digested prior to the time of slaughtering. At some markets the co-operatives have made the securing of large fills one of their chief appeals to shippers. In at least one market they have installed special troughs for feeding shelled corn at frequent intervals so as to secure the maximum consumption of feed prior to weighing.

Our third inquiry was: Have the terminal commission companies reduced inequalities or discriminatory practices in the distribution of returns among shippers, thus securing payment to the producer in more strict accordance with the quality of his product? As to the results which the co-operatives have obtained in this effort, a rather satisfactory conclusion seems justified. The whole method of handling shipments through the local shipping association and terminal commission company has been devised to reflect to the producer as accurately as possible the actual market grades with such premiums or deductions as they command. Since the system is organized on the basis of service at cost, no gains, even if accidental, accrue to the handling agency. The method of individual accounting tends to reflect to the farmer the actual price which the packer pays for his product. Insofar as the co-operatives develop the practice of paying on a yield basis (see page 200), the farmer's returns come to reflect the exact meat value of his animals rather than the judgment (at best none too accurate) of the buyer who inspects them on the hoof. All this promotes certainty on the producer's part that his reward will be proportionate to the value of what he sends to the market.

The last of the inequalities in the distribution of market returns at which co-operative reform has been aimed is the short-time irregularities of price which cause one shipper to get the high price paid at the peak of a short-time bulge and another to get the low price paid at the trough of a brief sinking spell. This involves the whole issue of the effect of co-operation upon market prices, and its consideration can therefore best be deferred to the next chapter.

## III. EFFORTS OF THE OVERHEAD ORGANIZATIONS

We have been inquiring what has been done toward the reduction of marketing costs by (a) shipping associations and (b) co-operative commission companies. A third inquiry naturally suggests itself, namely: What has been done in the same direction by central overhead agencies? Since no such organization had been established on a permanent basis as a part of the Farmers' Union livestock marketing enterprise during the period which we are reviewing, our discussion under this head must be limited to the work of the National Livestock Producers Association and of the state service associations.

The report of the Committee of Fifteen had nothing to say about the reduction of marketing costs as a function of the national overhead organization, considering that body to be concerned primarily with price problems. The National has in practice, however, given some attention to the problem of reducing marketing costs through the improvement of physical methods of handling, the elimination of wasteful practices, and legislative regulation of charges.

It might seem, as a matter of logic, that it would have addressed itself to the question of straightening and shortening the line of movement to market through the elimination of any superfluous agencies. In point of fact, however, it was very fully occupied during the first few years in the effort to get its several terminal commission companies established and in successful operation. Being extremely eager to build up the volume of these terminal companies, it was not unnatural that it looked with little favor on any steps taken either by packers or by country shipping organizations in the direction of more direct marketing. More recently it has espoused the direct selling activities

which had developed in the Ohio area under the name of the Eastern States Company. Likewise it adopted an attitude toward direct marketing elsewhere which if not actually favorable was at least more conciliatory than its earlier view. Its most distinctive effort in the direction of simplification and economy in marketing methods came in connection with its development of cattle and lamb pools. These were designed to construct a direct channel from the rancher to the feeder, eliminating the costs and losses incident to terminal market handling of feeder stock. These ventures have not met with unvarying success, but there seems no reason to suppose that eventually the method may not be perfected in such a way as to mark a distinct achievement in the direction of economy.

As for the state livestock shippers' associations, all have carried on educational work in the interest of better methods of physical handling and of commercial management. The results of their work have largely been discussed in connection with what we have said about the achievements of local shipping associations. In addition it may be pointed out that several of them have sought to secure the merger of local shipping associations into larger operating units, a move which seems clearly to promote economy. In Ohio the state organization likewise has been active in furthering the work of the Eastern States Company, which in turn was designed to make a more direct and economical channel between the local shipping association and the Eastern processor.

In spite of these piecemeal attacks upon the problem of economy, however, it may be said that, up until the time when the old National Producers organization gave way to the new Farm Board enterprise, none of

the livestock co-operatives had succeeded in working out a comprehensive plan for the simplification of the market process in the interest of economy. The Farm Board had thus a largely uncultivated field in which to make a fresh attack upon the problem. We must therefore wait until a later chapter to see what progress is being made in this direction.

A final comment may be ventured concerning the value or importance of such savings in cost or betterments in service as have been indicated in this chapter. Pecuniary savings may be made to look large by totaling them for all agencies over a period of years; so stated they amount to millions of dollars. Or they may be made to look small by referring to them as "a few cents per head" on livestock handled.[20] It is the writers' belief that money savings are probably the less important product of co-operative livestock marketing and that improvement in service is a product of much greater ultimate value.

Most important among these betterments in service is the fuller understanding of market requirements, grades, and price-making factors on the part of the co-operative members. The producer feels better and functions better in both his producing and his marketing activities in proportion as he attains a clearer understanding of these conditions and greater confidence that he will be treated in accordance with his

[20] Many of the co-operative agencies are themselves coming to look at the matter from this angle and are insisting that such small individual savings should not be returned to the producer as patronage dividends but should accumulate in association reserves until they can be effectively employed in extending service in fields now inadequately developed because of lack of capital, or in educational and organizational work among the commodity group.

economic merits.[21] No soundly and smoothly operating market system can be built upon any other foundation; and such a foundation the co-operatives, whatever their present shortcomings, are endeavoring to lay.

[21] The broadcasting of full and uncolored market information by the co-operative association has been a particularly potent force in rationalizing the business of trading at certain markets. Many of the terminal agencies also have conducted market tours in which shipping association managers and individual producers have had the workings of the market, handling methods, grading practices, and the like explained to them. Such work has shown fruitful results in promoting better producing and shipping methods and also in dispossessing the farmer's mind of certain misapprehensions as to what was actually happening in his market.

## CHAPTER XIV

## MARKET PRICE AND COLLECTIVE BARGAINING

However great the achievements of co-operative livestock marketing in the reduction of marketing costs, or however disappointing its performance in this field, we must remember that this has been the minor rather than the major objective of the movement, at least during the last decade. Since the Committee of Fifteen the greatest hopes for economic benefit from co-operation in the marketing of livestock have been centered upon the amelioration of the price situation. It has been argued that through group action some direct effect could be secured upon the price structure and even the general level of livestock prices. The co-operatives were confident of getting an extra nickel per hundredweight here or a dime there, of capturing premiums of a quarter per hundredweight on this particular class of stock, or of preventing the erratic breaks of half a dollar in the market which have always been occurring from time to time at one point or another. Such gains were expected to outweigh greatly the penny savings, however welcome, which might be won by assiduous paring of handling charges.

In the main, this hope of better prices has been centered upon the selling service of the terminal commission companies. Faith was placed in them to secure better prices for the farmer's product from (a) better salesmanship, (b) more single-minded concern for the producer's interest, and (c) the power that comes from large size and united action.

## I. THE TERMINAL COMMISSION COMPANY AS SUPERIOR MERCHANDISER

The "old line" commission system had been jogging along for many years, establishing such practices and standards of service as its internal competition brought about. During the World War there had been a tendency for additional firms—many of them quite small—to establish themselves. This resulted in an extreme degree of subdivision of the business and a feeling that a considerable number of the selling agencies were weak and ineffective. It was argued that if the producers, instead of scattering their shipments among a great number of firms many of which were mediocre in quality, were to consolidate this volume of product in the hands of one agency on each market, they could employ the very best salesmen and render the highest quality of selling service at a minimum cost. It is an established tradition of the livestock markets that ability to "top the market" is a special gift of a few outstanding salesmen; these adroit traders the co-operatives desired to have in the service of their members.

The quality of salesmanship is so imponderable a factor that it is hardly possible to say whether or not co-operative agencies have accomplished results which would set them above the non-co-operative firms. They have promptly taken their position among the largest firms in the several markets where they have operated. With such a volume of business they have been in a position to pay salaries as good as the strongest rival firms and have time and again attracted "crack" salesmen from other organizations. It seems clear, as judged by empirical standards, that they have thus been able to establish themselves on a plane higher than that of the weaker and more irresponsible private

firms and equal to that of the best "old line" companies. Beyond this they can hardly go, unless they introduce some new element of selling efficiency.

The co-operative commission companies are quite positive that they have introduced such a new factor of efficiency. The superiority which they claim lies in the definite identification of their interest with that of the producer. They call attention to the fact that the private trader has his own interest to consider, that he may be playing in with a particular packer, that he himself often engages in scalping or speculating operations or has certain affiliated "traders" who are seeking speculative margins rather than directing them back to the farmer's pocket. This item of co-operative faith was emphasized by the National Livestock Producers Association when it adopted the slogan, "In the hands of a friend from beginning to end." It is a modern instance of the old Rochdale doctrine that business functions best when conducted solely for service and not for profits.[1]

The possible gains from this source vary from one situation to another. Some of the less firmly established or less scrupulous private firms have shown a tendency to gouge the patron whenever they could with impunity but, on the other hand, many an old

[1] The most careful attempt to analyze price results obtained by a co-operative commission agency is to be found in a report of the Bureau of Agricultural Economics of the U. S. Department of Agriculture on the work of the Producers Livestock Commission Association of East St. Louis. This is based on a study of actual sales of 35,383 medium weight hogs and an unstated number of light weight hogs sold by the co-operative over a period of forty-four market days.

"Of these 35,383 animals, 2.7 per cent were price marked on the scale tickets at prices above the range of prices for medium weight hogs quoted by the market news service as indicative of the market. Nineteen and one-tenth per cent were placed at the reported upper limit of the range of prices for this weight, 25.9 per cent within 5 cents of the upper limit, and 20.4 per

established firm has earned a reputation for serving its patron's interest in every way that could reasonably be expected. The writers feel that co-operative terminal organizations, in representing the producer on the market, have not only come up to the best standards of their commercial competitors, but in several particulars have contributed additional elements of service which probably would not have been rendered so fully in their absence.[2]

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cent within 10 cents of the upper limit of the range of prices reported. Only 1.3 per cent were sold at the lowest price quoted for each day for medium weight hogs.

"Analysis of light weight hog sales during the same period gave approximately the same results. For this weight group 41.9 per cent of the hogs, which appeared to belong in the range of grades reported by the market news service, were sold within 5 cents of the highest quoted price and above. The more common range for light weight hogs was 50 cents, and the significance of selling 41.9 per cent of the hogs of these weights at within 5 cents of the highest quoted price and above is increased by this consideration.

"There are no standards of gauging co-operative efficiency in the selling of hogs by which this performance may be judged. Data regarding the relative quantities of the various grades of medium weight and light weight hogs sold by the association and by the market are not available, so it is not possible to state the association's position relative to sales on the market as a whole. It is evident that all hogs cannot be sold at the top of the market because of variations in grade and variations in demand for the same grade throughout the daily marketing session." Gardner, Kelsey B., "A Business Analysis of the Producers Livestock Commission Association of National Stock-yards, Illinois," U. S. Department of Agriculture *Circular* No. 86, p. 26.

[2] We have already noted (footnote 8, page 232) one co-operative leader's observation "that a number of conditions existed on the market which did not give to the producer the kind of service he wanted, and it was with the hope of getting a better service and overcoming some of these conditions that the shippers began to think of and eventually to organize their own selling agency on the market." As to the realization of these hopes, the same speaker added: "We feel that we have materially improved market conditions here. One of our competitors said to a friend of mine not very long ago . . . 'They

As "outlaw" concerns co-operative commission companies have introduced a fresh element of open competition, and have had a salutary influence against the tendency of organized exchanges to protect and promote the interest of their members rather than that of their producer patrons. It seems to be generally conceded also that the co-operatives have been in large part responsible for infusing such vigor as there has been in the enforcement of the Packers and Stockyards Administration Act. Likewise, the co-operative terminal agencies have been aggressive in utilizing the facilities of the Intermediate Credit system to aid in financing the movement of livestock from range to feed-lot and from feed-lot to packer market. While they have not been blazing a trail here, their practice has differed from the financing operations of the "old line" companies in that it has been handled on a co-operative basis of service at cost rather than as a profit-making system of commercial finance.

Finally, it was clearly consideration for the producer's interest and desire to build up an all-round merchandising service which moved the co-operative selling agencies to establish stocker and feeder departments and similar undertakings looking toward the reduction of speculation in every way possible. The original stocker and feeder activities have subsequently been supplemented by the cattle and lamb pools. All of these have been pushing out experimentally into new methods of merchandising on a group basis in such manner as to bring the greatest possible benefits of collective bargaining back to the farmer's pocketbook. Most recently, some of the terminal commission

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[the Central Co-operative Association] have made us all give a damned sight better service than we ever gave before.'" Montgomery, *American Co-operation*, 1926, Vol. I, p. 175.

companies have been won over to the support of co-operative order buying and direct selling activities. This seems to hold promise of increased efficiency, since these practices are designed to effect (in that part of the field to which they are adapted) the shortest and most economical line of movement from producer to ultimate consumer.

There is no adequate way of measuring the actual results of these efforts as a whole. There have been conspicuous successes and some rather disturbing failures.[3] The latter may be merely inevitable incidents of the experimental period of development. The movement is still too much in a state of flux to attempt to dogmatize on ultimate results.

Apparently the co-operatives themselves are not too confident of the issue. When results from efforts to improve returns through skilful merchandising prove disappointing, they turn longingly toward more forceful methods. Co-operatives have placed great emphasis on the desirability of attaining such a position of dominance on the market that they "will have something to say about the price of their stock." This raises two important questions (1) as to the necessity of large size or relative importance in the market as a whole and (2) as to the value of concentration of marketing operations upon a few trading centers which follow the long-established public stockyards methods of higgling and individual inspection of wares before purchase.

## II. THE IMPORTANCE OF SIZE

Co-operative commission companies have constantly stressed the argument that their ability to advance the producer's interest is improved by the attainment of greater size. They have maintained that a small and

[3] Such as the Producers feeder cattle pool of 1929.

struggling co-operative organization is made the butt of discriminatory trade practices and finds it difficult to secure respectful attention from the railroads, the banks, certain packers and order buyers, whereas the situation markedly changes when the volume of receipts increases to the point where the co-operative becomes the largest agency on the market or one of the three or four leading houses. The prime consideration with reference to size, however, has concerned the effect which control of a large percentage of offerings on the market has directly upon prices.

The co-operative terminal commission companies have sought to build up a dominant position in each of the several markets and to utilize the strategic position thus acquired to prevent manipulative or other local or short-time deviations from prices which appear not to be justified by the general supply and demand situation. Besides such smoothing out of the short-time swings in market price which have penalized particular shipments, some at least of the terminal associations have indicated a serious feeling of responsibility to effect a better adjustment over longer periods of time between the flow of livestock and the current demand of the particular markets in which they are located. They believe that this so-called "stabilization of supplies" would bring about a corresponding stabilization of prices.

It is the authors' belief that there is sound economic logic in the contention that a co-operative commission association which is entrusted with a quarter, a third, or a half of the hogs received at a given stockyards market may, by virtue of its collective bargaining position, put up some effective resistance to efforts to depress prices artificially on that market. It is a well-known fact that any market, and particularly the

smaller ones, tends to use adverse conditions on other markets as fully as possible as an excuse for depressing prices. In case of an extraordinarily heavy run of stock at Chicago, for instance, or other factors which produce a temporary maladjustment between supply and demand there, resulting in a break of 50 cents per hundredweight or even more, buyers on other markets such as Omaha, St. Paul, and St. Louis utilize the drop in Chicago quotations to the greatest extent possible to depress prices at these points. If, as may quite possibly be the case, the runs at some or all of these markets are normal or slightly under normal, there would seem to be no reason why prices there should suffer merely in sympathy with a totally irrelevant situation elsewhere. However, to maintain prices in the face of the concerted bearishness of all the buyers on this market, it would be necessary that some agency have both a fraction of the total supply so large as to be indispensable to the major buyers and a definite determination to play its part in the market with an eye single to the interest of the livestock producer.

In general it has been true that the commission business of our livestock markets has been divided among a much larger number of firms than would be necessary to handle the business efficiently and economically. These firms grade down from three or four of large size to a much greater number of small and weak firms. The latter are anxious to sell the stock consigned to them and make sure of their commissions. They feel no responsibility for supporting the market against unwarranted attacks and entertain no illusions as to their ability to do so. Let us suppose that the Chicago market on a given morning opens at a loss of 50 cents a hundred owing to a comparative oversupply of hogs on that market. The principal buyers on the Omaha market naturally use this as an argument for lowering

their bids at the opening of the Omaha market by a like amount. Inasmuch as runs are not excessive on the latter market, we shall say that the strongest and most aggressive firms there endeavor to resist this price decline. The large buyers thus find themselves unable to do business with these firms in the early hours of the market. They therefore approach some of the smaller concerns and in due time get a sale recorded, possibly at a concession of 40, 35, or perhaps only 10 or 15 cents below the previous day's level. Other small firms promptly take a similar price in order to be sure that they are not left with stock unsold at the end of the day's trading, feeling that prices for the day will be on this lower level. In this manner the market is established and, as no single concern has more than perhaps 5 or 10 per cent of total receipts, none will be in a position to resist this bear attack.

If, on the other hand, one agency is in control of perhaps a third of the total receipts, it may argue: "There is no justification for a decline in prices in our market, whatever local conditions in Chicago may be. Furthermore, we have under our market control a quantity of hogs of desirable qualities sufficiently large so that the four or five big buyers will not be able to complete their requirements without coming to us. Hence we will maintain the price level at yesterday's figure, or at such advance or such decline (less than the Chicago break) as may seem to be justified by local conditions and prospects for the immediate future." If such a position is stoutly maintained in the producer's interest on the basis of the most authentic information and not overplayed in the zeal to secure artificial enhancement of prices, there seems no reason to doubt the ability of a producers' terminal co-operative, with 30 or 40 per cent of receipts, to exert an effective influence against the depressive efforts of buyers, who in the past have

either individually or through the consciousness of group solidarity exercised a collective bargaining power much greater than that to be found on the selling side of the market.

That further gains would accrue if the proportion of receipts handled by a single co-operative commission agency were increased to 50, 60, or 75 per cent does not necessarily follow. This increase is not required in order to establish the effective position for collective bargaining which we have analyzed above, whereas it might well create a danger of attempting to dominate the market and force prices above an economically justified level through monopolistic pressure.[4] Such a course would simply put the given market "out of line" with others and tend to demoralize the general structure of prices.

This raises a basic issue with reference to the collective bargaining idea, namely: How have the livestock co-operatives sought to establish the most satisfactory

[4] "To my mind, one of the worst curses we have had in the marketing of livestock and every other farm commodity is that we have had too much competition in the selling end and not enough in the buying. You have thirty-five salesmen selling hogs and four or five men buying. Under those conditions it is absolutely to the advantage of the man who is buying. If I were buying, there would be nothing to suit me better than thirty-five men selling hogs. I feel that if I were buying I would be at a disadvantage as to the hogs on this market if the selling were in the hands of one or two men instead of thirty-five, especially if those men knew their business. We have satisfied ourselves, and there is no question of doubt that we have often saved a break of 10, 15, 20, or 25 cents on that hog market because of controlling one-third of the hog receipts. I hope the time will come when we can control a bigger percentage. If we could control 50 to 60 per cent, I am satisfied we would be able to render the producer a vastly greater service than we have yet been able to do. We hope for similar conditions in the other markets so that we may eventually have something more to say about the price at which the stock shall sell." Montgomery, *American Co-operation*, 1926, Vol. I, p. 177.

relation of prices at any given co-operative selling point to those at all other points to which co-operatives are tributary? In the days of the first terminal commission companies little attention was given to this problem, the effort being primarily for each commission association to do as well as it could in its given market, accepting price situations elsewhere as it found them. In the Committee of Fifteen plan, however, recognition was given to the need "to co-ordinate the work of these terminal commission associations." To that end a national livestock producers' association was set up. Its conception of the task of co-ordination between markets and the efforts which it has made in this direction will be discussed presently. Meanwhile, however, something must be said about co-operative selling efforts outside the terminal commission associations and of their relation to collective bargaining efforts and the price-making process.

### III. DIRECT SELLING BY LOCAL AND REGIONAL AGENCIES

In Chapter XI we discussed the activities of co-operative shipping associations and their overhead agencies in marketing their members' product direct to packers or slaughterers not located at stockyards markets, or to "re-load stations" which act as country buyers for distant killers. In undertaking such a selling function themselves rather than delegating it to terminal commission associations, these local co-operative units have been animated by a desire to secure the most favorable net returns for their members. There are two general areas where direct selling by non-terminal agencies has been vigorously developed. They center in Ohio and Iowa respectively. In both areas certain of the more alert shipping agencies, after giving close study to the

problem of comparative net results of selling by consignment to the terminal and by direct selling at minor consuming points, gradually built up a considerable volume of direct sales. In recent years the aggressive policy of country buying by packers has given this movement considerable added stimulus; indeed possibly even an over-development from which it will in time somewhat recede. Without attempting, however, to examine that possibility, we may recapitulate briefly the circumstances that led to the earlier phase of the movement which grew out of a study on the part of local co-operative agencies of their own distribution problem.

Ohio lies at the eastern fringe of the livestock surplus territory, the western fringe of the deficit territory of the industrial Northeast. Largely through the originality and resourcefulness of a few local leaders, it was found that producers could secure for themselves the premiums that were being paid for stock, chiefly hogs, selected to meet the special requirements of a particular plant, and at the same time reach these consuming points with a minimum of handling cost and transit shrinkage through a comparatively simple system of direct selling. They ceased to consign their stock blindly to a few traditional long-established stockyards markets, such as Cleveland, Buffalo, Pittsburgh, and others, where "scalpers" and order buyers pocketed the profits incidental to studying and meeting the peculiar needs of a variety of Eastern buyers, and where farmers' stock incurred marketing charges and suffered deterioration during this roundabout marketing process. They developed a system of selling direct to slaughterers. First brought to a high degree of perfection by the Fayette Producers' Company, this practice gradually spread to other Ohio counties. It

was taken up by the state livestock marketing association, and in 1924 assumed a regional character [5] as the Eastern States Company.

As for Iowa, this state lies in the heart of the heaviest livestock surplus territory and, with the passage of the years, has attracted an increasing meat packing business both in independent plants and in those which are branches of the so-called "national packers." There has always been a considerable amount of selling direct to these local consuming markets, but a new impetus to the movement has come in recent years. Methods of marketing analysis adapted to the needs of the local shipping association were developed by the state Agricultural Experiment Station and Extension Department, and the dissemination of these methods over the state was aided by the Iowa Co-operative Livestock Shippers' federation. Through comparative study of prices received in their several available markets and of the cost of getting to these markets, this price analysis work tended to direct the interest of local shipping association managers to nearby markets whenever they appeared to offer a differential advantage. This, along with the increased buying activities of out-of-state packers, has brought it about that Iowa in 1929 and 1930 sold some 61 per cent of all her hogs (which are approximately one-fifth of the nation's total production) at non-stockyards points. (See table on page 186.)

A representative of the state agricultural college states that scrutiny of the results of the price analysis studies leads to the following conclusions:

1. Net returns from different markets vary by from 20 cents to 60 cents per hundredweight on identical classes of hogs.

[5] Embracing Ohio, eastern Indiana, and southern Michigan.

2. No market is always the best.

3. Some associations consistently get larger returns than others. The variation in returns often runs from $30 to $80 per car.

4. The associations securing the best returns are those that shop around and usually sell a substantial portion of their hogs to interior markets.[6]

Associations which follow a practice of direct selling feel that they have effected a reduction in marketing costs which inures to the producer's benefit, and argue that in so doing they have approached the co-operative objective of superior merchandising. By seeking out any and every market which at the moment is bidding more strongly than others for a particular class of stock, by diverting their supplies away from the market whose price is lower by reason of its being comparatively too well supplied, they believe that they tend to improve the whole tone of the market.

Such a decentralization of the selling function, however, runs counter to the general collective bargaining effort unless local selling agencies be federated or otherwise merged under the direction of some central sales office. Likewise, as we have pointed out in Chapter XI, it creates a danger of putting the work of selling into the hands of an unspecialized and inexpert personnel. This danger was less in Ohio by reason of two facts: first, the development was on a county-wide basis; and second, it was shortly enlarged to a regional selling system. In Iowa, likewise, three areas had concentrated their selling operations each in the hands of a single manager, and a movement toward the development of larger district agencies and eventually a state selling system was under way[7] when the crea-

[6] Thompson, S. H., "Recent Developments," *The Shipper*, January, 1930, p. 12. See also next footnote.

[7] Mr. Thompson's study of direct selling in Iowa led (in addition to the points stated above) to the following conclu-

tion of the Federal Farm Board caused developments to take a new turn. Before going into the details of the current expansion of direct selling operations, we should notice that a not inconsiderable faction within the co-operative livestock marketing movement stubbornly resists this tendency and claims that if co-operative selling is to have any beneficial effect on prices it must be by putting all co-operative selling in the hands of the terminal agencies.

In the view of these opponents of direct selling, the failure to send shipments to the terminal co-operative commission companies has both a minor and a major harmful effect. First, it interferes with the terminals' effort to build up on their respective markets such a dominant position as to protect prices against any short-run or local depressive influences which could be enjoyed by the larger buying interests on these markets. This we have already discussed (pages 256–60). More important than this non-participation in the stabilization program, however, is the general adverse effect which decentralized country selling is claimed to have on the whole structure of terminal market prices and, through them, on livestock prices everywhere.

The argument runs to the effect that, to the extent that packers are able to buy stock direct from the producer or his local organization in the country, they are freed from the necessity of going into the terminal market to bid competitively with other packers and order buyers there. This argument takes no account of the fact that every direct sale in the country sub-

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sions with reference to the desirable type of selling agency:

5. Ineffective selling at interior markets may result in actual loss to the grower. The grower must provide himself with an effective sales machine if he uses interior markets.

6. District selling appears to yield substantial returns to the grower—frequently $30 to $80 per car more than individual association selling.

tracts that amount of supply from the terminal market receipts which compete for such demand as is to be found there. Over against this, some weight must undoubtedly be attached to the possibility that packers who have extensive country connections might conceivably plan their buying campaigns ahead in such a way as to withdraw their demand from particular terminal markets in very unequal and unexpected ways with the malign intention of demoralizing the market and utilizing this demoralization as fully as possible to their own price advantage. Along this line we have rather heated accusations on the part of terminal co-operatives and counter-claims from the packers that they are interested in price stability hardly less than is the producer, and carry on their buying operations in accordance with more long-range and constructive policies than the above argument would give them credit for.

In so controversial an issue, involving so delicate and intricate a price-making mechanism, it is impossible to give an irrefutable answer to the problem of direct marketing either on grounds of economic analysis or of statistical proof. One of the authors of this book attempted several years ago to ascertain whether the direct purchase of hogs on the Kansas City market had the baleful influences which were ascribed to it. The answer appeared to be in the negative.[8] Likewise, in Appendix C Mr. Bjorka presents a rather elaborate statistical examination of the possible effects of direct buying upon the level of hog prices. Here again the answer seems to be that such depressions of price as have taken place do not appear to be ascribable to the influence of direct marketing.

[8] Knapp, J. G., "Direct Buying at Packers' Private Yards," *American Co-operation*, 1927, Vol. I, p. 568.

One further attack upon the problem is presented in Appendix A. This investigation has been suggested by the argument of opponents of direct marketing that direct selling weakens prices at the large central markets and that, since prices at the re-load stations and country packing points are rather generally based upon these central market quotations, any apparent gains from off-market sales are purely illusory. That is to say, a producer or local manager may be able to show that he got 15 cents a hundred more at his local market than the terminal price, but since it is argued that the terminal price has been depressed by 10, 15, 25 cents, or whatever amount because of the decentralization of selling operations he actually gains nothing and sellers as a whole actually lose. While this general argument may have a certain amount of validity, it is frequently exaggerated and over-simplified, particularly in the statement often heard that "Chicago makes the price, and no other market turns a wheel until the Chicago quotation has been received."

In Appendix A, we examine the available evidence to see whether the Chicago market does in fact establish the basis upon which the price structure of other markets is built through the addition or subtraction of tolerably standardized differentials. On the basis of an extensive examination and careful statistical analysis of actual figures from the principal markets over a period of years it appears that prices on any of the other markets are constantly departing from Chicago prices by amounts grossly disproportionate to the computed normal differential. The statistics show also that prices on other markets such as Omaha and Kansas City or Kansas City and St. Louis move together over considerable periods of time much more closely than any of these markets move with Chicago.

It appears on the whole that the grip which the theory of Chicago's leadership in the price-making process has upon the minds of marketing men runs back to a time now long past when Chicago was the one big market which conceivably did exert a dominating influence on livestock prices throughout the marketing area. The Chicago stockyards in 1900 received 43.5 per cent and in 1929 only 28.5 per cent of all cattle, sheep, and hogs handled in the nine principal markets. Chicago receipts in 1907 amounted to 28.6 per cent of the federally inspected slaughter of that year[9] as against 19.9 per cent in 1929. It seems clear that today the important price-making influences operate directly and independently through a larger number of markets than was the case some years ago.

To sum up the direct marketing situation, it appears that, over a not inconsiderable part of the shipping territory, producers' associations have developed methods of sale direct to slaughterers which they believe yield them higher net prices either through the reduction of marketing costs or securing premiums for stock selected with special reference to the buyer's needs. The terminal co-operative associations quite generally feel that such advantages are secured in part at least at the cost of the terminal associations and those who patronize them. Two policies therefore have developed within the co-operatives' ranks with reference to the matter. Roughly half of the terminal associations are arrayed to fight the practice and, if possible, eliminate it, regardless of whether this would mean "throwing out the child with the bath." The other half have decided that direct marketing is here to stay and that, with the increasing decentralization of the packing industry, the wise course is to utilize

[9] The first year for which figures are available.

the most direct channels of market movement which can be devised. In order that there may not be offsetting disadvantages, however, they plan to incorporate direct selling into a comprehensive system along with the terminal agencies. They believe that, with such a selling system equipped with the best information available and the most skilful merchandising ability, it is possible to bring a co-ordinated marketing policy into effect at the minor as well as the major transaction points.

The possible benefits which co-operatives have hoped to reap from a system of collective bargaining await the perfection of such a plan. The movement had not evolved to such a point prior to the coming of the Federal Farm Board. Hence final discussion of the issue must be deferred until that element of the situation has been brought within our picture. Meanwhile we should note such steps toward developing a national machinery for collective bargaining in the sale of livestock as were taken by the National Livestock Producers Association.

## IV. THE NATIONAL LIVESTOCK PRODUCERS ASSOCIATION AND PRICES

The Committee of Fifteen a decade ago suggested the following as among the important lines of service which a national association might perform:

> The perfection and putting into operation of plans for orderly marketing.
>
> The furnishing to producers, feeders, and graziers of information which may enable them to market their livestock more intelligently.
>
> The interpretation for producers of information furnished by the Bureau of Markets and Crop Estimates.
>
> The gathering of additional data from livestock producers and their organizations.

While (as we have already noted on page 129) the Committee expressed a desire to "co-ordinate the work of the terminal commission associations," it did not develop in any detail a plan through which this phase of orderly marketing could be carried out. In fact its attention seems to have been directed primarily to the equalization of conditions from time to time rather than from place to place. The Committee report stated that "the welfare of the livestock industry is best served by the maintenance of fairly stable prices whereby marked daily fluctuations are avoided . . . There must be established definite methods for regulating the flow of various kinds of livestock toward the market in order to more equitably distribute the receipts. The method will differ depending upon the different kinds of livestock involved. When the supply of livestock of any kind on the leading livestock markets threatens a shortage or excess of the daily or weekly requirements, pressure should be exerted by the terminal selling agencies to regulate country loadings and thus aid the market in recovering."

Here and elsewhere the Committee of Fifteen clearly implies a belief that in doing away with the fluctuations of prices as a result of gluts and shortages it would not merely be robbing Peter to pay Paul. While the Committee spoke of the desirability of relieving market shortage as well as excess, it was quite evidently felt that the strengthening of price by the preventing of glut periods would not be offset by the weakening of prices due to relieving periods of undersupply. While nothing was said about control of the total volume of supply in order to raise the general level of livestock prices, the plan of "orderly marketing" was held out as promising a higher income to livestock growers. The report said: "A plan of

orderly marketing, when proper support can be given it by those who control the selling of the major portion of livestock receipts, will permit valuations to be created by demand in competition among buyers, and will have the additional value of regulating supplies, *thus permitting a much greater return to producers.*" (Italics ours.)

As to methods, the Committee emphasis was largely upon educational effort. The National Livestock Producers Association was set up as an overhead agency designed to work along advisory lines through its affiliated co-operative commission companies and, in widening but weakening circles of influence, through shipping association managers and individual producers. The report of the Committee of Fifteen placed emphasis on two such functions of the National Producers organization: (1) the securing of more comprehensive and accurate knowledge as to supplies by supplementing the statistics of official agencies by privately collected estimates, and to some extent by reports of actual inventories from their members; and (2) the furnishing of a detailed interpretive service which would bring all available information into clearest possible focus for the guidance of local organizations and individual members.

The most sustained and ambitious effort of the National Livestock Producers Association along these lines has been through its official organ—the *National Livestock Producer.* This has carried to the producer members a large amount of information as to market conditions, factors in the successful physical and commercial handling of the business, and other items designed to improve conditions of livestock marketing. The material so used, however, has not been of unique or distinctive character; no new sources of data or

original methodology have been developed within the National Producers organization. This has been due largely to the need of devoting time and effort first to organizational work in setting up the terminal commission companies and their auxiliary services. Financial support was not large enough to make possible the launching of ambitious efforts toward the stabilization of prices and the fullest exploitation of the possibilities of collective bargaining through a national system of marketing. Nevertheless, leaders of the National Livestock Producers Association have continued to express an aspiration that they might develop research activities which could be the foundation of a program of action on the part of their member organizations and individuals which would put new meaning into the term "orderly marketing" and give them the power to initiate a program of great constructive value in its influence on the price structure. Such a research department was started on a modest scale in April, 1929, when a market and price analyst from the Bureau of Agricultural Economics of the United States Department of Agriculture was secured to undertake the work. The research program which he laid out had three general objectives in view:

1. To bring about a clear understanding of the status and needs of the present livestock marketing structure and the livestock industry in general, so as to improve conditions for the livestock producer and to effect policies in regard to a national production and marketing plan.
2. To encourage and bring about a broader dissemination of market information, which would be of particular value to the individual livestock producer in planning a profitable production and marketing program.
3. To analyze the local market situation and adjacent territory of the various terminal units so as to make available information which will be of value in correcting

unsatisfactory conditions prevailing at the market and make for a more successful operation of the terminal associations.[10]

The first formal study under this program was directed to the preparation of a statement of "major problems facing hog producers." This statement presented data on the increased cost of distributing hog products and other meats, the reduced domestic demand for lard and various fat cuts of pork, the discrepancy between the retail value of hog products and the basis on which live hogs are purchased, calling for standard grading of hogs and hog products, and concluded that "the lack of stabilization in hog production and marketings is one of the major losses to the hog industry. Developing ways and means of bringing about orderly production and marketing is a national problem and one of vital concern to a national marketing organization." [11]

In undertaking the making of market analyses for the benefit of its members, the co-operative system is largely building on a foundation long ago laid by the "old line" commission firms. It was the practice of the latter to advise their patrons either through printed or mimeographed letters, or through personal communication by mail, telegraph, or telephone, of expected periods of weakness in the market which should be avoided, or of particularly favorable times or places of marketing which should be taken advantage of in the scheduling of shipments. A few of the larger firms even published regular "market papers" which went periodically to a large mailing list just as the co-operative house organ is now distributed. The co-operatives, however, have expanded this service and very much

[10] Conway, H. M., in *Report* of the Eighth Annual Meeting of the National Livestock Producers Association, p. 49.
[11] *Ibid.*, p. 50.

improved its quality. Such work along these lines as was done by the old private firms was largely in the hands of men who relied simply on their own past experience and advised their patrons in accordance with their own "hunches" as to what was likely to happen. The co-operatives are employing professionally trained market analysts and endeavoring to put the work on the best possible scientific basis.

The results thus far obtained by the National Livestock Producers Association have doubtless, from the producer's standpoint, been worth all the effort that has been put into them. They have not introduced any revolutionary changes in the marketing system or clearly discernible enhancement of market prices. The co-operatives have felt that some of the most tangible benefit of the work of their national association has come from legislative efforts in the interest of tariff on livestock and meats, in support of the Packers and Stockyards Administration, and in opposition to packer activities in the field of direct buying. The association likewise lent its support to the Co-operative Marketing Act of 1926 and to various phases of farm relief legislation, notably the Agricultural Marketing Act of 1929 under which the Federal Farm Board was created. This latter effort doubtless reflected a growing belief on its part that if anything really effective were to be done in the improvement of livestock market conditions it would have to be through a comprehensive agency capable of developing a movement which would be national in a much fuller sense than was that which grew out of the Committee of Fifteen effort. The National Livestock Producers Association gave way to the new National Livestock Marketing Association before the former really had an opportunity of fully working out its plans for collective bargaining. What-

over the value of its preliminary spade and shovel work, the real harvest of its endeavors will only become apparent as the Federal Farm Board projects have time to mature. We shall therefore proceed to examine the Farm Board proposals.

# CHAPTER XV

## THE PROGRAM OF THE FEDERAL FARM BOARD

The Agricultural Marketing Act creating the Federal Farm Board was passed on June 15, 1929. Although President Hoover took unusual pains to secure nominations and suggestions as to personnel from interested individuals and organizations all over the country and, although several hundred names were thus brought within the field of consideration, the selections had been made and the Board organized within one month after the passage of the Act. Of the nine members constituting the Board a business man was selected for chairman, the Secretary of Agriculture was an ex officio member, and the remaining seven members were chosen for their particular qualifications with reference to important agricultural commodities. The man chosen to represent the livestock industry was C. B. Denman, president of the National Livestock Producers Association.

Although confirmation of these appointments by the Senate did not take place until October, the Board immediately plunged into the study of its problems and the formulation of plans. Wheat was the first commodity for which plans for a national marketing agency were announced, and organizations covering cotton and wool followed shortly. No time was lost in tackling the livestock problem, with the result that the Federal Farm Board called an organization meeting in Chicago on October 23. To this meeting it invited sixty-six representatives of livestock marketing groups,

primarily the co-operative terminal sales agencies.[1] Twenty-eight such agencies sent representatives. Twelve of these were members of the National Livestock Producers Association and, all told, the twenty-eight companies covered twenty-two central livestock markets. The Western Cattle Marketing Association and the National Order Buying Company completed the active co-operative representation.[2] Other interests participating in this meeting included the American Farm Bureau Federation, the National Farmers' Union, and the National Grange. Four agricultural college people were also included and two persons who fall outside any of the other classifications. One was the secretary of the American National Livestock Association, a general welfare organization of sheepmen and cattle raisers in the Rocky Mountain area. The other was the secretary of the Ohio Livestock Co-operative Association, an educational and organizational overhead federation of the shipping associations of that state.

The conference proceeded at once to the appointment of a credentials committee. Certain members of this committee questioned the co-operative status of several of the delegates, but were adjured by a spokesman of the Farm Board not to report adversely on any who had been invited to attend the meeting. Their report,

[1] The invitation to this meeting, sent out by telegraph over the name of the secretary of the Board, referred to the participants as "representatives [of] farmers' co-operative livestock terminal sales agencies." In opening the conference the vice-chairman of the Board said: "We have invited to this meeting the co-operative organizations who are selling livestock on the terminal market." The Board's conception of the project as one of federating co-operative selling agencies is evident.

[2] These organizations are both engaged in direct selling to packers and not in the terminal commission business. They constitute two important exceptions to the Board's general statement of eligibility.

therefore, recommended seating all delegates whose names appeared on the invitation list of the Farm Board. There were three present whose names were not on the list. Two of these the credentials committee disapproved on the ground of their having "no connection with the livestock marketing movement." The one controversial case was that of the secretary of the Iowa Co-operative Livestock Shippers. The credentials committee said: "There is no question about his interest in the co-operative movement, but so far as we know he is not connected with any organization which was invited here and there is some question as to his eligibility to sit in this meeting and we would like to put it up to the house to determine whether they wish to seat him or not."

A representative of the Western Cattle Marketing Association moved that the Iowa representative be seated "since he is performing the first function toward co-operative marketing." The motion was seconded by a delegate from the Cleveland Producers house, but was lost.[3] One does not find this action explained by the Board's reference to this as a gathering of "co-operative livestock terminal sales agencies" since representatives of four organizations which do not come under this description were seated; or in the fact that the Iowa people followed a practice of direct selling, for the two great direct selling agencies took a prominent part in the conference; or in the fact that the Iowa association was not itself engaged directly in the process of marketing, for two other agencies were welcomed even though their functions were no closer, if as close, to actual marketing of livestock.

[3] Subsequently two other persons were excluded because not "connected with any organization or association of a co-operative character which was invited to this meeting." The nature of their interest in the proceedings was not stated.

Finally, the action could not have been based on the standing of the association or its representative, since prominent persons in Iowa, including the president of the agricultural college and the governor of the state, had importuned the Farm Board to extend an invitation to the Iowa Co-operative Livestock Shippers.[4]

Thus constituted, the conference proceeded to consider a plan of national organization.

## I. HOW THE PLAN WAS FORMULATED

The representatives of the Federal Farm Board presented to the meeting a "memorandum concerning suggested plans for the organization of a national association of livestock producers." Stating that the Board believed that co-operative agencies controlled a sufficient volume to be a real factor in the livestock markets if this volume were combined under the direction of a national organization, the memorandum continued:

> The duplication of effort which now results from the operation of more than one co-operative agency on a market not only lessens the operating efficiency but weakens the influence and position of the co-operatives on those markets. The Board is anxious to assist in eliminating competitive conditions which are detrimental to the progress and development of co-operative livestock marketing; however, at this time the Board is more concerned in amalgamating the large volume of co-operative business and uniting existing

[4] The livestock member of the Federal Farm Board in his opening remarks came closer than anyone else to an explanation of the procedure followed. He said: "We are taking those who have placed themselves in a position to go forward in a national program of co-operative marketing, *one with which this Farm Board can co-operate* . . . [Italics ours.] Now we will let the verdict rest with you [whom we have selected] as to whether we are proceeding in the right way of taking those that have the organized power and money to go forward in this way." Stenographic report of the livestock organization meeting, Oct. 23, 1929, pp. 3–4.

sales agencies into a national organization from which an advisory committee may be named. Then as time and experience directs, the advisory committee may bring to the Board recommendations for mergers or closer working relations of livestock co-operatives.

The Board was careful to point out that this did not necessarily mean the merging of existing associations where two or more were operating on a single market. "Local conditions," the memorandum stated, "may make it practicable for the agencies to work together in a community of interest relationship where a co-ordinated selling program could be adapted and much of the duplication in field work, publicity, and advertising and other services to stockmen could be eliminated."

The Board's scheme proposed a National Livestock Marketing Association with "an authorized capital of 1,000 shares of preferred stock of a par value of $100 per share and 100,000 shares of common stock of a par value of $1.00 per share, each share to have an equal vote." Co-operative livestock marketing agencies joining the National Association were to subscribe for common stock at the rate of one share for each 500 head of livestock handled during the preceding calendar year. If additional capital were needed, preferred stock was to be sold to the livestock marketing agencies holding common stock in quantities proportional to the amount of their common stock holdings. Working funds were to be derived from service fees of 50 cents per single-deck car and 75 cents per double-deck car. The board of directors of the National Livestock Marketing Association was to be composed of one representative of each member agency.

After considerable discussion and some amendment of the plan it was adopted as a whole by a unanimous vote of the conference. Immediately after this action

C. E. Huff, president of the Farmers' Union, presented a resolution "that it is the sense of this meeting that the actions and decisions of this group relative to the form of the proposed national livestock association and the proposed subsidiaries are tentative and suggestive only, and that the committee which shall be created to prepare the articles of incorporation and by-laws shall so interpret them."[5] Mr. Stone of the Federal Farm Board, who was presiding at the meeting, observed that this was "a wise resolution because the findings of the committee must be brought back to this group for their approval and it may expedite the work of the committee very materially." Mr. Crandall of the Central Co-operative Association suggested that on the basis of business handled the Producers organization should have four representatives on the committee; the Farmers' Union, three; the Central, one; and the Western Cattle Marketing Association, one. The suggestion was referred to a nominating committee of three, who made their selection on that basis.[6]

[5] *Ibid.*, Oct. 24, 1929, p. 74.

[6] The personnel of the committee was as follows:

R. M. Hagen, manager, Western Cattle Marketing Association, San Francisco, Calif.

Charles B. Crandall of Randolph, Minn., president, Central Co-operative Association, South St. Paul, Minn.

H. G. Keeney of Cowles, Neb., president, Farmers' Union Livestock Commission, Omaha, Neb.

Frank G. Young, secretary-manager, Farmers' Livestock Commission Company, National Stockyards, Ill.

C. C. Talbott of Jamestown, N. D., president, Farmers' Union Livestock Commission, South St. Paul, Minn.

Murray S. Barker of Thorntown, Ind., president, Producers Commission Association, Indianapolis, Ind.

Dr. O. O. Wolf of Ottawa, Kan., secretary-treasurer, Producers Commission Association, Kansas City, Mo.

E. A. Beamer of Blissfield, Mich., president, Producers Commission Association, East Buffalo, N. Y.

H. H. Parke of Genoa, Ill., president, Chicago Producers Commission Association.

This committee of nine, after a series of stormy sessions, evolved a plan which provided for a National Livestock Marketing Association with a feeder department and a subsidiary publishing company. The plan made such scant provision for certain activities already developed by the National Livestock Producers Association that this organization served notice as early as December 5 that it would not come into any national organization which failed to include all these activities as subsidiaries in substantial accordance with the Farm Board plan as submitted to the October meeting. The committee of nine made no specific provision for financing agencies, though the directors were empowered to set up whatever service departments might be advisable. It was proposed that the Federal Farm Board should lend funds direct to the National Livestock Marketing Association both for its own activities and for the financing of producer patrons. On this issue the Farm Board itself intervened, taking the matter out of the hands of the organization committee of nine and re-assembling the sixty-six delegates of the October conference for a fresh consideration of the entire matter. The position of the Board was stated by its secretary as follows:

While not rejecting the work of the committee of nine we are not accepting their plan as the one which we can approve because of one or two important developments in the policy of the Board in administering the Agricultural Marketing Act. One of these is our plan for financing the different agricultural commodities through the co-operative marketing associations. To meet this need no provision has been made in the plan presented by the committee of nine. Therefore the Board is calling another meeting of the same officials who met before and to whom a plan will be presented which the Board feels will meet the needs of all livestock producers wherever situated. This is based upon our information as gained from the requests that come to the

Federal Farm Board from all sections. We believe that this plan will command the support of a sufficient volume of livestock to make this national association the dominant factor in the livestock markets of this country. The plan will not destroy nor should it hurt any co-operative livestock marketing organization now in operation. We hope to strengthen rather than weaken the position of the co-operatives.[7]

This second conference of the sixty-six chosen delegates was held in Chicago on February 25 and 26. To it the Farm Board submitted a complete plan of organization with articles of incorporation, by-laws, and contracts.[8] In general the new plan followed the lines of the earlier memorandum, although it was worked out in greater detail and made two or three major changes. The National Livestock Marketing Association and two subsidiary corporations — the National Feeder and Finance Corporation and the National Livestock Publishing Association—were to be organized. The credit corporation and the feeder company were combined in a single subsidiary, and the National Order Buying Company was changed from a subsidiary to a member organization.

The National Livestock Marketing Association was to be capitalized at $1,000,000, the stock to be held exclusively by livestock sales agencies. These sales agencies were to be the co-operative commission associations operating on the terminal markets, the National

[7] In a letter dated Feb. 5, 1930 to C. B. Crandall, president of the Central Co-operative Association, and chairman of the subcommittee appointed by the committee of nine to draft articles of incorporation and by-laws.

[8] The vice-chairman of the Farm Board, who presided, explained tactfully but rather vaguely that "some of the things they [the committee of nine] have decided on the Farm Board thought should be changed," and so in a desire "to be absolutely helpful and not destructive in any way" the Board has "certain suggestions" which it would "make in writing." Efforts made by the committee of nine to present its report were unsuccessful.

Order Buying Company, the Western Cattle Marketing Association, and state livestock marketing associations. To be represented on the board of directors of the National Livestock Marketing Association it was required that the member agency should have marketed during the previous calendar year not less than 2,500 single-deck carloads[9] of livestock. Sales agencies which had marketed less than this amount during the previous calendar year might, however, become stockholders of the National Association if approved by its board of directors.

The authorized capital of $1,000,000 was to be divided into 50,000 shares of common stock of the par value of $10.00 per share and 5,000 shares of preferred stock of the par value of $100 per share. The preferred stock was to be "entitled and limited to" annual cumulative dividends of 5 per cent. No dividends were to be paid upon common stock, but the net earnings after payment of dividends on preferred stock and setting up reserve funds were to be "refunded to stockholders and patrons on a patronage basis."

The proposed by-laws of the National Livestock Marketing Association required that each co-operative marketing agency execute a prescribed agreement with the National and purchase one share of common stock for each ten single-decks of livestock handled during the preceding calendar year. The common stock was to be re-apportioned at least once a year on the basis of stock marketed by the agency during the previous calendar year. The preferred stock, when issued, was to be allotted to common stockholders in accordance with their holdings. At membership meetings each stockholder was to cast one vote for each share of stock

[9] Or the equivalent in truck receipts.

owned whether common or preferred. Cumulative voting in the selection of directors was permitted.

In addition to the stock purchase requirement, each stockholder was required to pay dues amounting to 50 cents per single-deck and 75 cents per double-deck of livestock handled. Dues on truck shipments were fixed at 50 cents per 25 cattle, 75 calves, 70 hogs, 115 sheep. Dues were to be paid monthly.

An important feature of the revised plan which evoked spirited discussion was the provision for a sales board consisting of the manager of the National Livestock Marketing Association, the manager of the National Order Buying Company, and the manager of the National Feeder and Finance Corporation. This sales board was to "secure the most authoritative information relative to the supply and demand situation with respect to livestock and livestock products and, with this information as a basis, prepare and transmit reports to the co-operative livestock sales agencies each business day and during the trading hours for their direction."

Members of the conference called attention to the fact that the provision just quoted (from the by-laws) was made Article I of the contract between member agencies and the National Livestock Marketing Association and that it was there followed by the provision:

> The agency agrees to abide by and conform to the policies prescribed by the association with respect to handling, inspecting, buying, selling, and marketing of livestock and in regard to any other matters pertaining to the livestock industry.

There was much apprehension lest this provision of the contract should bind all selling agencies to delegate their functions of bargaining on their respective markets to a single central price-determining agency

which would also have the power to instruct them in what markets and in what manner to dispose of the stock entrusted to them.

This fear was further increased by the presence of the manager of the National Order Buying Company as one of the three members of the sales board. It was felt by some that the Order Buying Company would have a large part in the control of the national marketing agency whereas the National should have very close control of all order buying and direct selling activities throughout the whole system.[10]

In the revised plan the Order Buying Company (as a member of the National Livestock Marketing Association, co-ordinate with terminal sales agencies rather than a subsidiary corporation as in the first plan) was to have two classes of members, regional concentration yard associations and terminal commission agencies, but not individual producer members. It was to provide a selling service for local co-operatives going direct through co-operative concentration yards or re-load associations and also to do order buying on the terminal markets through the co-operative terminal commission companies where they desired such a service and wished to become stockholders in the Order Buying Company. Its articles of incorporation and by-laws were not presented to the meeting of February 25–26, and some of the delegates expressed great doubt and some uneasiness as to how it was supposed to function.

[10] This arrangement met with considerable opposition from those who were unfriendly to the National Order Buying Company. It was subsequently altered so that the president of the National Livestock Marketing Association took a place on the sales board in lieu of the manager of the National Order Buying Company, although such a change involved increased expense, the very thing which the opponents of the Farm Board plan have all along objected to.

The plan presented by the Board on February 25 also provoked criticism from certain of the larger terminal associations because of the fact that no additional representation was accorded to organizations which had a volume of livestock greatly in excess of the 2,500 carloads requisite for membership. However, this section of the articles of incorporation was finally accepted by the delegates.

A third major line of attack on the plan was directed at the Feeder and Finance Corporation. There was keen disappointment over the new policy of the Farm Board because it proposed merely to assist in the setting up of agricultural credit corporations for borrowing through the Intermediate Credit system. It had been expected that the Farm Board would lend its funds direct to the livestock associations at low rates of interest.[11] As to the feeder business of this

[11] "Mr. Keeney: We are trying to finance our feeders more cheaply and more economically than we are doing now. We thought possibly borrowing this from the revolving fund, we could get it a little cheaper than through the Intermediate Credit Bank. This way, it seems we would still be paying the same rate.

"Chairman Stone: It would be absolutely impossible for the Federal Farm Board to finance the agricultural commodities of this country directly with the $500,000,000 that is at our disposal. There are fourteen billion dollars' worth of agricultural products produced in this country. By pyramiding any funds that the Farm Board can use through the Intermediate Credit system, it gives you just that much more credit that is available.

"Mr. Keeney: The point I am making is that commodities can already go through the Intermediate Credit Bank and make those funds available without this set-up. What additional advantage will we secure?

"Chairman Stone: The thing we had in mind is that there is a very small percentage of the livestock business in this country that is now being handled co-operatively, and what we are mostly interested in is the establishment of a national organiza-

subsidiary, also, there were some expressions of opposition on the ground that the feeder pools of the old Producers organization had been built up on a speculative basis, which was neither co-operative nor commercially safe. These operations (purchase of or contract for feeder stock in advance of orders from feeder patrons) had involved the Producers in some sizable losses, and it was feared that the new Feeder and Finance Corporation would inherit these policies.

In spite of such opposition as developed along these lines, the plan for a National Livestock Marketing Association submitted by the Farm Board to the meeting of February 25 was approved by the conference. The vote was 38 to 23, everyone present being permitted to cast an equal vote whether he was the sole representative of his organization or whether several such representatives were present, and whether he represented a marketing association or some other type of organization.

It was understood that this plan would be put into effect as soon as agencies handling two-thirds of

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tion whereby your volume of business will be largely increased co-operatively.

. . . . . . . . . . . . . . . . . . . . . . .

"Mr Denman: We are trying to fix a stable interest rate for every livestock producer in this United States, and that we can do and we will do, so that no man who is a member of this organization through one of these terminals shall ever have to pay more than 6 per cent for his money.

. . . . . . . . . . . . . . . . . . . . . . .

"Mr. Atkins: We ought to get this money to our farmers as cheaply as possible. That is a farm relief measure; that will make it possible to stabilize agriculture and make their paper worth more than it is today. The thing that has ruined all of us farmers out in South Dakota has been 8 and 10 per cent interest. Now we are getting down where we can get 7 per cent money. We believe we ought to get it at about 4½ or 5 per cent." Stenographic report of the livestock organization meeting, Feb. 25–26, 1930, pp. 37–38, 44, 49.

the co-operatively marketed livestock should formally approve it. So much disaffection developed even before the meeting adjourned that it was freely predicted that, outside the Producers group, few if any ratifications could be expected. The ratification date, which had been set for April 1, passed without the necessary approval. On April 16 seven Farmers' Union commission companies, together with the Central Co-operative Association, the Producers of Indianapolis, the Indiana Farm Bureau, the Farmers' Livestock Commission Company of East St. Louis, the Missouri Farmers' Association Livestock Commission of Springfield, and the Equity Co-operative Association of Milwaukee joined in the following statement of their position:

1. We believe that control of the National Livestock Marketing Association proposed to be set up must be based upon the volume handled by its stockholder groups. No other basis of representation can possibly reflect and safeguard the interests of producers. Volume more nearly represents the number of producers than would any other basis, and follows closest the accepted co-operative principle of "one man one vote."

2. We recognize the sincerity of the offer which has been made so to hedge about and control the National Order Buying Corporation as to make it in effect a subsidiary of the National Livestock Marketing Association. We agree with the position taken by representatives of the National Producers Association that control of this corporation must be vested in the National Marketing Association by some means. We are only concerned with the result to be obtained, and are ready to accept any provision which, in practice, will insure this relationship and will carry the certainty of participation of all members of the National Livestock Marketing Association in the Order Buying Corporation.

These two factors last above named must be present in order that the organization may operate successfully, and we believe that the simplest and best way to secure it is to make this corporation a wholly owned subsidiary of the

National Livestock Marketing Association. We do not demand, however, that the result be secured by this method, but only that it be made certain and secure by some means.

3. We believe that it will be decidedly more wholesome and effective to provide that control of the National Livestock Association shall be vested in its board of directors, and permit the board to employ such management as they find necessary or advisable rather than to depend upon the sales board as provided for in the plans submitted to the committee of sixty-six.

4. We believe that Paragraph No. 1 of the proposed agreement between the member agencies and the National Livestock Marketing Association should be modified so as to eliminate the sales board and otherwise conform to the foregoing suggestions.

We believe that Paragraph No. 2 of said agreement should be greatly modified so as to insure to the agencies at least during the first year of operation self-control excepting as they shall be governed by the by-laws of the National Livestock Marketing Association.

The position which we are here taking marks a very substantial concession on the part of our groups, and we believe that all of them stand ready to pledge adherence to a national agency, set up as previously proposed, with these few changes.

We desire to do everything within our power to co-operate with the Federal Farm Board and with other livestock agencies in order to provide adequate and effective marketing machinery in behalf of the American livestock producer.

We believe that all of our agencies will immediately become a part of the proposed organization if such changes are made as will insure the above principles being effectively incorporated in the new organization. We believe that the suggested changes are absolutely essential to a successful national marketing program, and we earnestly urge that both the Farm Board and the National Producers groups give every consideration to these principles.

There is a great deal in the proposed organization set-up with which we are not in hearty agreement, but we are willing to set aside our opinions in all of these matters, and are asking only that these slight but highly essential modifications be made.

> Copies of this action will be placed in the hands of the Farm Board and of the National Producers representatives at the earliest possible moment, and we hope to receive favorable action and reply within a brief time.[12]

To the letter embodying these statements the Farm Board made no reply, but called a meeting to organize the National Livestock Marketing Association in Chicago on May 6. Twenty-eight co-operative marketing agencies attended this meeting. A resolution that voting power in the meeting be allocated in accordance with volume of business done in 1929 was presented by a representative of the Farmers' Livestock Commission Company of East St. Louis. It was laid on the table and a motion adopted that the delegates proceed to set up the National Livestock Marketing Association. Thereupon the proposer of the previous resolution offered another to the effect that the by-laws of the National be amended by (a) omitting the provision that "only one director may be elected from a stockholder member" and (b) giving the executive committee the functions previously conferred on the sales board. This resolution was passed by a vote of 14 to 12.[13] The same delegate then presented a third resolution amending the marketing agreement (contract) between members and the National so as to make the executive committee the directing body (in lieu of a sales board) and making the second section read:

[12] *The Federal Farm Board and Livestock*, pp. 15–16. Published without date (during 1930) by the Farmers' Livestock Marketing Association.

[13] The official minutes of the organization meeting of May 6 record this vote but say nothing as to why the changes were never carried out. The statement subsequently issued by the non-adhering group was that "a resolution providing for an amendment of the Farm Board set-up to make it meet some of the requirements set forth in the group letter of April 16 was voted down." The by-laws as adopted on May 12 carry the sales board provision unaltered. See next footnote.

The agency agrees to abide by and conform to all reasonable rules and regulations of the association with respect to the handling, inspecting, buying, selling, and marketing of livestock.

A motion to adopt this resolution was declared out of order by the chairman, and the Central Co-operative Association and the Farmers' Union commission companies thereupon withdrew from the meeting.[14]

The fifteen remaining agencies (twelve Producers terminals, the National Order Buying Company, the Western Cattle Marketing Association, and the Texas

[14] Such is the record of the official minutes, which are admittedly not a stenographic report of the proceedings. The statement of the withdrawing delegates was as follows:

"There was then presented to the meeting a resolution amending the Farm Board set-up so as to place in the board of directors of the national marketing association full control of the affairs of that organization and giving to each member agency a vote in the election of directors of the organization proportionate to the stock held by each, that is, in accordance with the volume of business done by each agency. When this resolution was submitted Vice-Chairman Stone informed the meeting that the Farm Board would consent to no changes in its plan unless the changes were adopted by the unanimous vote of the meeting. This statement was of course equivalent to saying that the Farm Board would consent to no changes in its plan because everyone present knew that a unanimous vote could not be secured on any kind of a resolution. Thereupon it was suggested that the resolution be submitted to the meeting and the sentiment of the groups present ascertained with respect to it, although it was understood that even if the resolution were adopted the plans of the Farm Board would not be changed. Thereupon a vote was taken upon the resolution and it was adopted 14 to 12, the only agencies voting against it being National Producers agencies and the agency created by the Farm Board. Two of the National Producers agencies voted in favor of the resolution, as did the Western Cattlemen's Marketing Association. The agencies voting in favor of this resolution represented more than 65 per cent of all the livestock marketed co-operatively in the year 1929. At this time the Farm Board and those present at the meeting were advised that if the Farm Board plan were changed so as to accord with this resolution, and the membership contract modified as previously requested, all of the groups whose names are signed to this

Livestock Marketing Association)[15] proceeded to set up the National Livestock Marketing Association and its two subsidiaries, all of which were incorporated on May 7, 1930. Five days later the fifteen directors elected at the organization meeting of May 6 held their first business session. At this time they amended the by-laws so as to add four directors-at-large to represent the American Farm Bureau Federation, the National Grange, the Farmers' Union, and the American National Livestock Association. They also extended an invitation to all other livestock marketing agencies to join the National.

No immediate response to this invitation was received, but at a second directors' meeting held on June 10 and 11 considerable effort was made to effect a union of the National and the group which withdrew from the meeting of May 6. The latter still insisted on the elimination of the sales board, additional votes for large member agencies, and no voting power for newly-formed associations until after a year of actual operation. The only concession offered was in a reso-

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document would become members of the national organization. Thereafter another resolution was submitted to the meeting to complete the changes requested in the group letter of April 16, and that motion Vice-Chairman Stone ruled was out of order. Thereupon the undersigned agencies advised the Farm Board that they were anxious to co-operate with the Board, that they desired to become members of a national marketing association, but that in their judgment the plan submitted by the Federal Farm Board was unfair and improper and was sure to be of no value to the actual producers of livestock of the nation, that they could not become members of it without violating their plain duty to the members of their own organizations, that the group did not desire to interfere with the business the Farm Board had planned for the meeting and would therefore leave the meeting to the Farm Board." *The Federal Farm Board and Livestock*, p. 17. Published without date (during 1930) by the Farmers' Livestock Marketing Association.

[15] See Chap. XVI.

lution providing for one additional director for any association which handled 15,000 single-deck carloads annually. Consideration was given to the fact that, since all offices and directorships had been filled from the existing membership of the National, this was regarded as a deterrent to the entrance of other associations at this time. To meet this situation the seven men who constituted the executive committee of the board and the officers of the association tendered their resignations, to become effective July 14. Selection of a manager was also deferred until that date to see just what persons might finally be eligible.

When July 14 arrived and the directors of the National were again assembled, none of the disaffected agencies had signified their intention of coming in and so it was thought necessary to perfect the organization and start active work. Accordingly all the resigning officers and directors but one were re-elected. The exception was in the position of president, and this was filled by the election of Charles A. Ewing, a member of the first board of directors of the National Livestock Producers Association and subsequently a director in the Chicago Producers Livestock Commission Association.

At this meeting, following suggestions of the Farm Board, the basis of voting was so changed as to give an additional vote for each 5,000 carloads of stock handled by an association in excess of the 2,500 necessary to qualify for membership.[16] Information as to

[16] The provision that newly-formed agencies might become members on the basis of their estimated volume of business (i. e., signed up under marketing agreements) was objected to by certain of the older organizations which still hesitated to cast their lot with the National. They felt that new associations should not participate in directing the affairs and forming the policies of the National Association until they had acquired actual marketing experience and until time had shown whether

this concession to the views of the outside group was sent to them by telegraph while the meeting was still in session,[17] but none of them responded by applying for membership. On the other hand, they convened a separate meeting of their group a week later and launched a somewhat similar organization of their own. To this movement we shall return at a later point, but first we shall summarize the structure of the National Livestock Marketing Association and development of its organization.

## II. GENERAL STRUCTURE AND PLAN OF OPERATION

The national plan for co-operative livestock marketing contemplates a comprehensive system of terminal and primary market selling agencies co-ordinated through an overhead service organization, with two subsidiaries furnishing facilitating services. All selling agencies are tied to the National by a contract stipulating that their marketing activities shall be carried on in conformity with plans and policies formulated by the association through its sales board. Following the general practice of the Federal Farm Board

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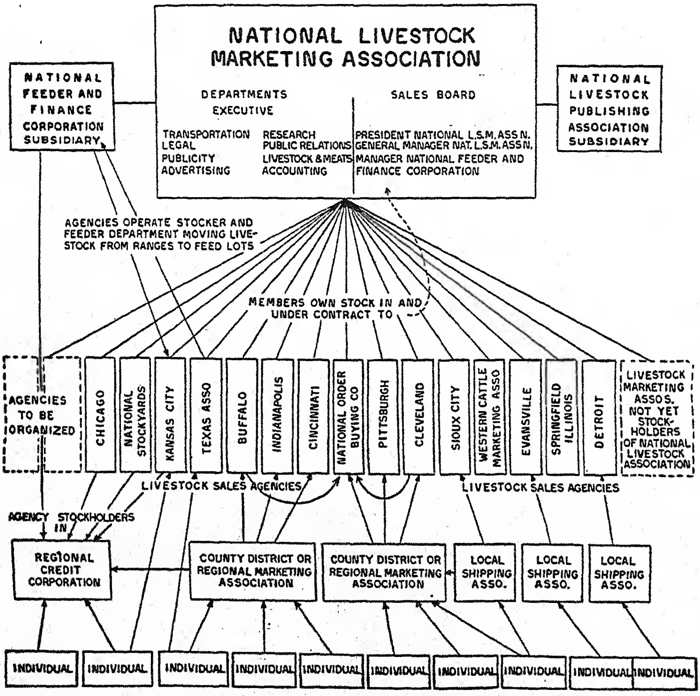
they would actually secure the volume of business credited to them on the basis of their "sign-up." It was natural, however, that such organizations should desire to be represented on the board of directors on the same volume basis as others, and this view was strongly endorsed by the Farm Board.

Stated bluntly, there was a fear on the part of certain of the older organizations, notably the Central of St. Paul and the Omaha Farmers' Union, lest new associations springing up under the Farm Board impulse should outvote them in the board of directors. At all events, it was contended that their voting strength could not properly be determined until their estimated volume of business had been verified by a year of actual operation.

[17] The position of general manager also was offered to the manager of the Central Co-operative Association, but was declined. The following day P. O. Wilson, manager of the Cincinnati Producers Commission Association, was chosen to fill this post.

an "advisory commodity committee" of seven, nominated by the co-operatives and confirmed by the Federal Farm Board, is set up to represent livestock producers "before the Board in matters relating to the commodity." Local shipping associations participate in the system through their use of terminal commission




*National Livestock Producer*, September, 1930, p. 7.

agencies or through the formation of district selling agencies. Individual producers may consign their stock to co-operative commission associations or market it through local shipping associations or direct to district or regional selling agencies.

The general plan as presented graphically by the Federal Farm Board at the time the organization got actively under way is shown in the chart on page 296. A few points deserve special attention.

It will be noticed that besides the terminal commission associations there are two direct selling agencies, namely, the National Order Buying Company and the Western Cattle Marketing Association, whereas the Texas Livestock Marketing Association is designed to provide both a terminal commission and a direct selling service. Space is provided for existing agencies not now joining the system but which may later come in, and also for new agencies, of which several have already been formed. They will be discussed in the succeeding chapter.

The relationship of the National Order Buying Company to the terminal commission agencies has as yet been only imperfectly worked out. The latter are somewhat jealous of the activities of the co-operative order buying company and thus far have been unwilling to go further than to allow it to operate in any terminal market subject to the approval of and under a certain degree of regulation by the commission association at the given point. A by-law of the National Order Buying Company states:

> This corporation shall not engage in business at any market unless the terminal livestock co-operative marketing association or associations holding stock in this company at that market consents to the organization doing so, and so far as this corporation is concerned the direct movement of livestock to killers, if any, with respect to any market or the normal trade territory thereof shall be at the request of and under the supervision of the terminal co-operative livestock marketing association or associations holding stock herein, operating at that market, but the general conduct of such business shall be in conformity to the policies prescribed by the board of directors of the company.

Furthermore, any livestock marketed by the Order Buying Company in a terminal market must be handled through the co-operative terminal commission association belonging to the National Livestock Marketing Association if such an association exists on a given market. As we shall see presently, the rôle of the Order Buying Company in the system has suffered considerable curtailment as the actual realization of the plan has proceeded.

The National Feeder and Finance Corporation takes over the work of the lamb and cattle pools developed by the old National Livestock Producers Association, and will conduct or supervise any further expansion of activities in this field. It is authorized to buy either on the range or in the public markets. The statement has been given out that its business is to be strictly limited to the purchase of livestock on orders by member associations or individual farmers belonging to member associations, and that it is not permitted to make speculative purchases on its own account. There is, however, nothing in the articles of incorporation or by-laws of the company [18] which limits it to such a policy.

The Feeder and Finance Corporation has an authorized capital of $5,000,000 which may be purchased only by the National Livestock Marketing Association. For this purpose funds were loaned to the association by the Federal Farm Board. These funds the Feeder and Finance Corporation can employ in purchasing 80 per cent of the capital stock of regional credit corporations formed in the several Intermediate Credit Bank districts for the purpose of discounting feeders' loans based on cattle, sheep, or other livestock. The credit corporations are expected to re-purchase this stock out

[18] See Appendix E.

of their earnings, thus releasing the funds of the Feeder and Finance Corporation and enabling it to relieve the National Livestock Marketing Association of the initial burden which it assumed so that it in turn can reimburse the Federal Farm Board for the loan which the latter extended to the National. In no case, however, is the Feeder and Finance Corporation's holdings of stock in the credit corporation to drop below the control point of 51 per cent.

The National Livestock Publishing Association will publish the *National Livestock Producer,* official organ of the National Livestock Marketing Association. Whether in time this publication will supersede the house organs of any of the component organizations, or whether other publication work will be undertaken, has not been decided. The chief reasons for making this a subsidiary rather than a department of the National Livestock Marketing Association appear to be in order that the National may reduce the danger of financial loss in case the publication should become involved in litigation or from any other cause and to avoid the requirement that each member agency buy stock in the publishing company.

We have already referred to the composition of the sales board and its function in studying market conditions and relaying market information to the managers of the member agencies. Whether this service would be of a purely advisory character and any use made of the material optional with the managers of these agencies is not explicitly stated in the articles of incorporation, by-laws, contracts, and press releases. Much is said about "co-ordination," and the general emphasis on centralization seems to suggest an intention to make this a real directional agency. Only time can tell what course will actually be followed. It will be noticed that

a department of research is included as one of the phases of the work of the National. This department is designed to supply the data upon which policies of the sales board will be based. Other service activities include transportation, legal, and accounting assistance to member associations; publicity, advertising, and public relations service for the livestock producer group; and a "livestock and meats department" designed to stimulate consumption of livestock products.

A later "organization chart" brings out the nature of relationships within the organization somewhat more fully,[19] but can be more advantageously discussed after certain developments of the organization since its launching have been considered.

[19] See p 320.

# CHAPTER XVI

# PROGRESS TOWARD NATIONAL LIVESTOCK MARKETING

Although the National Livestock Marketing Association was not finally launched until the middle of July, 1930, considerable progress had been made during the earlier months of that year in getting parts of the organization actively under way. Developments during the early stages of the work were most rapid in the range country. This was a territory which previously had not been active in co-operative marketing organization, but in which the conditions now seemed ripe for such a development. When the Committee of Fifteen surveyed the field of livestock marketing (1921) it emphasized the desirability of establishing an organization on lines broad enough to serve the entire livestock industry. As actual developments took place under the National Producers system, accomplishments were at first largely limited to the territory from the Mississippi River east, and the range country hardly appeared in the picture. Conditions have sufficiently altered during the last few years, however, so that the new movement shows a considerable shift of activity toward the range part of the livestock industry.

## I. PRODUCERS' ASSOCIATIONS IN THE RANGE COUNTRY

We have already discussed at some length the work of the Western Cattle Marketing Association which, beginning in 1923, had developed a method of marketing range cattle in the Pacific Coast area. While this organization was somewhat remote geographically

from the major part of the co-operative livestock movement, it had always manifested a co-operative spirit and looked with favor on such added prestige and financial aid as might accrue to it from affiliation under the Federal Farm Board plan. Its manager represented the organization at the first livestock meeting held under the auspices of the Federal Farm Board in October, 1929, and was elected a member of the committee of nine appointed to prepare articles of incorporation, by-laws, and contracts for the national organization. As soon as the revised Farm Board plan had been adopted by the conference of February, 1930 the Western Cattle Marketing Association took steps to affiliate itself with the National Livestock Marketing Association, and its manager accepted a position on the National board of directors and was named a member of the Advisory Commodity Committee.

Conditions were also favorable for the establishing of a cattle marketing organization in the near portion of the range country. The Texas and Southwestern Cattle Raisers' Association had existed for some years as a producers' organization concerned in promoting the general interests of the industry. In 1922 it entered the marketing field through the organization of the Cattle Raisers' and Producers' Commission Company, which operated a terminal co-operative commission house on the Fort Worth market[1] as part of the National Producers system. This selling agency was more or less actively supported by the membership of the Cattle Raisers' Association for two or three years;

[1] Such action had been contemplated by the Texas and Southwestern Cattle Raisers' Association for some years and actually authorized in 1921. Active operations, however, were deferred pending the report of the Committee of Fifteen.

thereafter the business dwindled,[2] membership dues were not paid to the National, and the agency was dropped from the National system in 1928. The following year its connection with the Texas and Southwestern Cattle Raisers' Association was also severed, and a few months later it ceased operations altogether.

Meanwhile a revived interest in co-operative marketing on the part of the Texas and Southwestern Cattle Raisers' Association had been directed toward affiliating with the new Farm Board organization in order to take advantage of the selling and financing facilities available from that source.[3] Accordingly a

[2] The then president of the Texas and Southwestern Cattle Raisers' Association commented on the difficulties of promoting co-operative organization in the range country as follows: "The Cattle Raisers' and Producers' Commission Company struggled along for a great many years . . . It has not forged very far ahead because the element of human nature has prevented it. Men in our country are prone to form staunch friendships, and those friendships prevent them from seeing a change in the old line representative of the commission concerns . . . In my own concern, the estate which I represent as a trustee, we have found that it has been impossible to get the estate to ship over a few dozen carloads during the entire life of the Cattle Raisers' Association Producers' Commission Company, and that sole opposition was based on the fact that originally they did business with certain commission concerns and the old friendships that were formed in the old days still keep the business." Kleberg, R. A., "Marketing Problems of the Cattleman," *American Co-operation*, 1927, Vol. I, p. 774.

[3] Those familiar with the situation comment on the increased interest in co-operative marketing of livestock which has appeared since the inception of the Farm Board among people who in the past have always been regarded as extreme individualists. This is attributed in no small measure to the financing aspect of the plan. One comment runs as follows:

"The livestock financing plan is a matter of great interest to the ranching industry. We have some feeding in Texas and other financing of livestock on the range. The feeding business is on the increase in Texas. In addition to that the ranchmen are interested in this financial plan as it will be helpful to the feeder who is a large purchaser of cattle. The product of the Texas range is largely stocker and feeder cattle. Any plan

committee of five was appointed in December, 1929 to draft a plan of organization. The following March it made its report, recommending the formation of a marketing association to be known as the "Texas Livestock Marketing Association" and to be affiliated as a member of the National Livestock Marketing Association. This report was adopted, and a former president of the Texas and Southwestern Cattle Raisers' Association became president of the new Texas Livestock Marketing Association, and also vice-president of the National Livestock Marketing Association. The new selling organization is designed not only to operate on such terminal markets as may seem expedient but also to make direct sales of stocker and feeder cattle and sheep from the ranches of its members to the feed-lots of the regions north and east.[4]

The organization has followed a very aggressive policy, including the establishment of selling offices on the Fort Worth and St. Joseph markets, where no

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which will assist the financing of those who purchase stockers and feeders will be of interest and benefit to the Texas ranchmen." Letter of E. B. Spiller, secretary, Texas and Southwestern Cattle Raisers' Association, Sept. 4, 1930.

[4] The Texas Livestock Marketing Association is fashioned on the general plan of the Western Cattle Marketing Association. A member signs a five-year contract with an annual withdrawal privilege, and is required to file with the association a schedule of the number, age, and quality of all kinds of livestock which he expects to have for sale during the current year. Livestock sold by the terminal co-operative association is charged the regular commissions, while 50 cents per head for cattle and 10 cents per head for sheep and goats will be paid to the association for livestock sold direct. The association "cannot make sales to feeders and other buyers at prices below any minimum price or prices which the producers may fix from time to time." Producers desiring to sell their own stock direct for stocker and feeder purposes only must secure the permission of the association or pay a charge of $1.00 per head for cattle and 10 cents per head for sheep and goats.

member agency of the National Livestock Marketing Association was operating. At Fort Worth a new commission house was established, but at St. Joseph, Missouri an "old line" firm was purchased. Livestock consigned in the name of the Texas Livestock Marketing Association to Kansas City and East St. Louis is handled by Producers commission associations on these markets.

The entrance of the Texas Livestock Marketing Association on the St. Joseph market occurred early in June, 1930 and created considerable consternation in the Farmers' Union agency at that point. It was likewise regarded as precipitate by the National, which was not consulted by the Texas group. In some quarters it was thought that this action on the St. Joseph market was a decisive factor in preventing the several Farmers' Union commission agencies from entering the National system then being promoted by the Federal Farm Board.

However that may be, officials of the National Livestock Marketing Association made considerable effort to secure a merger of the two agencies. The business of the commission firm which was purchased by the Texas Livestock Marketing Association was limited almost exclusively to Southwestern cattle. In order to offset the extremely seasonal character of the cattle business and to furnish a well-rounded and economical marketing service, a good volume of hog business was required. This the Farmers' Union agency had developed over a period of years. It seemed desirable, therefore, that the two agencies be united, and negotiations toward this end were actively pressed during a period of several months. At the end of this time the proposal was rejected by the directors of the Farmers' Union agency, and on February 1, 1931 the

Texas Association house on the St. Joseph market was reorganized under the name "Producers Livestock Marketing Association" to do an all-round livestock marketing business at that point. In the reorganization it ceased to be a selling office of the Texas Livestock Marketing Association and became a terminal association member of the National Livestock Marketing Association. It is actively sponsored not only by the Texas Association but by the Farm Bureau Federations of Missouri, Kansas, Nebraska, and Iowa and by the state Farmers' Union of Missouri.

A third market agency among the range producers was set up at Denver on June 17, 1930, the organization meeting having been called by the secretary of the American National Livestock Association. This was in territory which had long been served by the American National, which in 1906 had been active in organizing the unfortunate Co-operative Livestock Commission Company (see Chapter VII). Practically all of the Western state cattle associations and quite a few of the sheep associations are members of this organization. The interests represented at the meeting of June 17 drafted plans under Farm Board leadership for a regional marketing association which will have headquarters in Denver and market the livestock of ranchers in Montana, Wyoming, Colorado, Utah, northern New Mexico, and western Nebraska. The territory is divided into six state districts, each having two representatives on the board of directors, if possible one to represent the cattlemen and one to represent the sheepmen.[5] This agency is known as the Intermountain Livestock Marketing Association.

[5] Members are bound by contracts quite similar to those of the Western Cattle Marketing Association to dispose of all their stock consigned to terminal markets through its own agencies or through member agencies of the National Livestock Marketing Association. Livestock sold direct is to be listed and sold in

There was no commission house of the National Livestock Marketing group on either the Denver or the Omaha market,[6] where a large part of the product of this territory is sold. To meet this deficiency a selling agency of the National was opened on the Denver market in September, 1930, and there has been considerable talk of similar action on the Omaha market. As yet, however, no definite announcement has been made.

## II. THE SITUATION IN THE NORTH CENTRAL STATES

While these rather vigorous developments were taking place in the several sections of the range territory, which previously had not been very intensively cultivated by co-operatives, affairs elsewhere were not running smoothly. The North Central states—from Ohio to Nebraska, from Minnesota to Missouri—had been the stronghold of the shipping association movement and likewise of the terminal commission associations which were subsequently developed. The part of this territory lying east of the Mississippi River had been quite fully organized under the National Livestock Producers Association, whose influence also had extended somewhat west of the river, particularly in territory tributary to the St. Louis and Kansas City markets. The rest of that area remained under the

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accordance with rules of the association, although producers may sell outside of the association with its permission upon agreement to pay 25 cents per head on cattle and 5 cents per head on sheep and hogs. Without this consent the producer is liable in the amount of $1.00 per head on cattle and 20 cents per head on sheep and hogs.

A credit corporation with capitalization of $500,000 proposes to assist the cattlemen and sheepmen in their financing and marketing operations.

[6] There are Farmers' Union selling agencies at both these points.

influence of the Farmers' Union, the Farm Clubs of Missouri, the Central Co-operative Association of St. Paul, and the local shipping associations and state shippers' federation of Iowa.

This territory embraces most of the important swine producing area and the bulk of the corn-fed cattle as well as a large volume of dairy stock and some sheep and lambs. It was the hope and intention of the organizers of the National Livestock Marketing Association that all the previously separate interests of this whole North Central region should promptly be welded into one marketing organization embracing a system of selling agencies on all the important terminal markets and likewise a direct selling organization for all stock which did not move through public stockyards. Our previous chapter has shown how this plan of union went on the rocks with the result that two rival organizations were launched. We shall now trace the progress of the National Livestock Marketing Association in this territory.

The new marketing organization took over the twelve terminal commission associations of the old National Producers system and also a co-operative selling agency at Springfield, Illinois not previously affiliated with any overhead organization. In addition to these thirteen existing terminal associations, two new ones have been established by the Texas Livestock Marketing Association at Fort Worth, Texas and St. Joseph, Missouri respectively and one by the Intermountain Association at Denver. Besides these developments at the terminals, active attention has been directed toward getting the National Order Buying Company in a position to cover actively all the territory where direct selling has shown important volume. The Order Buying Company came early and aggressively into

this field. It secured from the Farm Board a "facilities loan" in the amount of $50,000 in February, 1930. This sum was to enable it to proceed in the state of Iowa with a program for erecting concentration yards where hogs would be assembled and sold under the direction of the National Order Buying Company. This method of handling the business, however well adapted to Ohio and however successfully worked out by the Fayette Producers' Company and subsequently by other associations, was so foreign to the shippers of Iowa, where conditions are very different,[7] that numerous delays were encountered and the plan was subjected to material modification before becoming acceptable to the Iowa people. The course of events there needs to be traced step by step.

[7] Ohio lies on the eastern fringe of the surplus producing territory; her farms are relatively smaller than those of Iowa and specialize less in livestock. Much of the livestock, particularly hogs, which is shipped out of the local regions goes to small packers and slaughterers who kill for the fresh meat trade or other specialized demands which require a particular class or grade of animal. Sorting is therefore very important. It must be done at concentration yards, and the concentration of stock is facilitated by the widespread system of hard-surfaced roads which has been developed in Ohio.

Iowa, on the contrary, is a region of relatively large farms and a high degree of specialization in the production of livestock. Hogs are highly standardized, and a large number of farmers have anywhere from one to half a dozen or more cars of hogs to ship within the course of a year. Breed and production methods are sufficiently standardized so that it is easy to secure comparatively even-running carloads at almost any fair-sized station. Furthermore, the product is shipped largely to packers who do a general business in fresh and cured meats and are not insistent upon securing sorted lots of uniform weight or type. Finally, the character of the roads on which many farmers in the state are located is not such as to make long distance trucking at all seasons economical or even practicable. Hence physical concentration seems destined to play a smaller part in the marketing of Iowa stock than in the territory east of Chicago. Concentration of the selling function is, however, a very different question.

For some years the Iowa Co-operative Livestock Shippers had been working toward the establishment of district marketing units to centralize the selling function and to provide for such physical concentration as might prove to be desirable (see page 193). Such undertakings had actually got under way at Mason City, Center Junction, and Williamsburg. Meanwhile an electric railway company operating short lines out of Cedar Rapids and Toledo had joined with local shipping interests to promote re-load stations at these points.[8] The re-load station at Cedar Rapids was organized in the summer of 1929 and operated along lines quite similar to those of the Ohio concentration stations. Eastern outlets were used to some extent, a good deal of sorting was done, and livestock was concentrated by truck from a rather large territory. This arrangement departed somewhat from what would ordinarily be practicable under Iowa conditions. Truck rates were made on an artificially low basis by reason of the fact that the trucks were operated by the electric railway company, and losses on the truck haul could be recouped from the ample profits of the short railway movement for which they received a much more than proportionate share of the through rate.

As we have noted above, this enterprise was seized upon by the National Order Buying Company as the nucleus for a system of concentration yards in Iowa whose product should be sold through the Order Buying Company. The Iowa Co-operative Livestock Shippers, however, took exception to such a line of

[8] Officials of the electric railway were interested because of the revenue accruing to them from all traffic originating on their lines. In view of the shortness of their haul, by which they were enabled to claim a share in the through rate, the business was distinctly profitable.

development. The matter was given extended discussion at the annual convention of the state federation on December 11 to 13, 1929, and the position taken that the state federation should continue its long-time interest in the development of district selling agencies, but that it desired to join its efforts in every possible way with those of the Federal Farm Board. It felt, however, that the Cedar Rapids situation was unique rather than typical of conditions in the state as a whole and that any sound development could better emerge from the past experience of this state than be hastily fashioned in imitation of organizations and methods developed elsewhere. These views were embodied in the following set of resolutions:

WHEREAS, various plans for organization of the direct selling of livestock on a nation-wide basis have been suggested for endorsement by the Iowa Co-operative Livestock Shippers; and

WHEREAS, some of the proposed plans do not appear to be economically sound because they do not provide for suitable representation of local co-operative marketing agencies located in the producing territory in control and management of the proposed organization; and

WHEREAS, many local co-operative marketing associations have by progressive methods met trying conditions successfully; and

WHEREAS, many district sales agencies are operating or in process of formation; and

WHEREAS, the local co-operative livestock shipping and marketing agencies of Iowa have, during the past decade, organized and developed a self-help co-operative trade association to serve in solving their common problems; and

WHEREAS, state trade associations of farmers' elevators, whose purposes and fields of service are similar to those of the Iowa Co-operative Livestock Shippers in their respective fields, have been very properly recognized and invited to take an active part in making grain marketing programs; now therefore

Be It Resolved, that we respectfully request and urge the Federal Farm Board to approve no co-operative livestock marketing program that does not definitely provide for the following principles:

1. Preservation of the control of local affairs in the hands of local co-operative marketing agencies in Iowa.

2. Participation of local marketing agencies, either directly or through district federations or a state federation, in the control and management of any national agency for direct selling of livestock which may be proposed.

3. We therefore request the Farm Board to make an adequate study of the above mentioned condition, and incorporate it in their program of marketing in accord with Iowa's local condition.

Be It Further Resolved, that the foregoing request aims to provide our constituents with a more businesslike and more fully co-operative set-up. Democratic control is a foundation stone of sound co-operative practice. Our request is not to be considered as an unfriendly attitude toward co-operative commission companies at terminal markets whose facilities should be used by growers when available.

The first item in the state association program for 1930 adopted at this meeting provided for "assisting local livestock shipping association leaders in the development of a large co-operative livestock marketing association adapted to local needs and conditions, giving due consideration to availability of market outlets, transportation facilities, and all other pertinent commercial factors; serving areas of one to three counties or more in size, but not necessarily following county lines . . . These district agencies should of course co-operate closely with each other, with the state association, and with co-operative commission associations and other co-operative livestock marketing agencies."[9]

[9] Other items in the program included "patronage of co-operative commission houses located at terminal markets when such markets are used; co-ordination of all co-operative livestock

Pursuant to this program the directors of the state federation on February 24, 1930 organized a selling agency to be located at Des Moines and to serve the associations tributary to that point. It was to be purely a selling office with no concentration yards attached.[10] This selling agency began operations on March 14, and at about the same time the Federal Farm Board began an intensive survey of considerable areas in the state to determine suitable locations for concentration stations to be operated under the National Order Buying Company. The direct upshot of this undertaking was the incorporation on June 14 of the Eastern Iowa Livestock Marketing Association with headquarters at Cedar Rapids. This was intended to absorb the Cedar Rapids re-load association and to operate over some eighteen or twenty counties as a district association under the National Order Buying Company.

The Eastern Iowa Marketing Association shortly directed a request to the Iowa Farm Bureau Federation that the latter set up a state organization of which the Cedar Rapids district could become a member, and which in time could set up associations covering other

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agencies whether operating for sales or service into a national organization designed to serve the grower of livestock; full co-operation with the Federal Farm Board in its efforts to assist growers to more effective disposal of livestock; continued co-operation with educational agencies, the Iowa State College, county agents, county Farm Bureaus, or general organizations of a state-wide nature, including the Farm Bureau, the Grange, the Farmers' Union, co-operative terminal sales agencies, and others interested in furthering co-operative livestock marketing."

[10] For this selling service the state association made a service charge of 5 cents per hundredweight, and assumed one telephone toll call between the local association and the Des Moines office on each transaction.

parts of the state.[11] Believing that such a move would be acceptable to the Farm Board and the National Association,[12] the Iowa Federation on July 18 proceeded to set up a state association under the title "Iowa Livestock Marketing Corporation."[13] This state

[11] In point of fact the state Farm Bureau of Iowa had become active in promoting the Eastern Iowa Livestock Marketing Association as a means of developing an autonomous state marketing organization and preventing encroachment by the National Order Buying Company.

[12] The president of the state Farm Bureau Federation was the representative of the American Farm Bureau Federation on the board of directors of the National Livestock Marketing Association as finally constituted on July 16, 1930.

[13] This association has an authorized capital stock of $25,000 divided into 250 shares of $100 each. This may be increased by an amendment by stockholders representing 51 per cent or more of the stock. "Any substantial producer of livestock and regional or district livestock marketing association," or other organization meeting the requirements of the Capper-Volstead Act of 1922, can hold stock in the corporation. The by-laws require each district livestock marketing association or other organization of farmers desiring to become a member of the corporation "to purchase and pay for at least 15 shares of the common stock." Individual livestock producers to become stockholders are required to purchase at least one share of common stock, the subscription to be approved by a majority of all members of the board of directors. Dividends which are non-cumulative are limited to a rate of 8 per cent. These are to be paid after reserves have been set aside. Thereafter "any sums remaining shall be distributed on a patronage basis to stockholders in proportion to the volume of business done by them with or through the corporation." The board of directors is to be "comprised of the president of the Iowa Farm Bureau Federation, who shall be a member ex officio; five members at large, not more than one to come from the same regional association; and two members from persons nominated by each district or regional livestock marketing association organized and doing business within this state." The completed board shall consist "of not less than twelve nor more than nineteen directors."

In order to get the Iowa Livestock Marketing Corporation into active operation the Iowa Farm Bureau arranged to buy $2,500 worth of stock in each of the district associations which in turn were each to buy the required $1,500 worth of stock in the Iowa Livestock Marketing Corporation.

association is to embrace eventually some five to seven branches, each of which is expected to develop local centralized selling for the area which it covers. The Iowa Livestock Marketing Corporation applied for membership in the National Livestock Marketing Association on August 19, and its application was unanimously approved. Later the same day it applied for membership in the National Order Buying Company, which was also unanimously granted. Besides the Eastern Iowa Livestock Marketing Association, which had developed a district agency even before the formation of the Iowa Livestock Marketing Corporation, there were four other active centers of group selling which had been developed in the state in conjunction with the program of the Iowa Co-operative Livestock Shippers (the state federation)—at Clear Lake, at Des Moines, at Williamsburg, and at Anamosa.[14] These might conveniently become the centers of other district associations within the new state system. One difficulty, however, has presented itself.

The Iowa Livestock Marketing Corporation was organized by the Iowa Farm Bureau Federation. It was incorporated under the general corporation law of the state, and the Farm Bureau Federation, by contributing $15,000 of its initial capital of $25,000, had voting control. Furthermore its articles provided that no stockholder could dispose of his holdings without first offering them to the Corporation at par for a thirty-day period. The Iowa Co-operative Livestock Shippers, joined by several other co-operative organizations of the state, insisted that this type of organization ran counter to the co-operative ideal of democratic producer control. Resolutions adopted at a meeting called to discuss this problem affirmed:

[14] By transfer from Center Junction.

1. That co-operative structures must be built from the ground up rather than from the top down;

2. That an understanding of each successive step in building of the co-operative structure and a desire to co-operate must be created in the minds of the membership in order that they will study the problems involved, help to build, and effectively man and control their own commodity organization;

3. That such co-operatives must build on such a basis that capital is the handmaiden and servant and not the master;

4. That any commodity organization must pay particular heed to costs of operation and possible benefits to the end that more efficient service can be rendered through co-operative channels than through old line institutions;

5. That the control of any successful co-operative must be vested entirely in the hands of the patrons as provided in the co-operative law which provides "one member—one vote." [15]

It would appear that, if this difficulty of control could be ironed out, a substantial part of the livestock marketing interests of Iowa would be ready to join with the National Livestock Marketing Association. The method of operation should then consist of three parts. (1) All stock moving to terminal markets served by National Association agencies should be consigned to these terminal co-operatives. (2) Stock sold in Iowa to direct buying packers located in the state or elsewhere should be handled by the Iowa Livestock Marketing Corporation. (3) The latter should employ the services of the National Order Buying Company for such stock as could be sold more advantageously or economically through that outlet than direct by its own organization or by a terminal co-operative.[16]

[15] *Des Moines Register*, Aug. 28, 1930.

[16] The reader's attention is called to the fact that we say sales "*should* be handled by the Iowa Livestock Marketing Corporation." As a matter of fact, when during the spring and early summer of 1930 the National Order Buying Company under-

Under such a system it would seem that a highly satisfactory selling service might be built up.[17]

## III. OTHER DEVELOPMENTS OF THE NATIONAL SYSTEM

The experience in Iowa suggests one important development which may be looked for under the National system, namely, the establishment of state associations. Such associations are specifically mentioned in the earlier outline of the plan promulgated by the Federal Farm Board and in the first chart of organization which was used. The Iowa Corporation is the first of strictly state character to be established and acquire membership in the National. The Texas Livestock Marketing Association, though bearing a state name, is essentially regional, embracing parts of several states, and the same is true of the Intermountain and Western Cattle Marketing Associations, although all of these differ markedly from the terminal sales agencies which constitute the majority of the

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took the aggressive development of its work in the state, the proposal was to have it become the direct marketing agency for all stock sold from Iowa under the Farm Board plan. The Iowa Livestock Marketing Corporation was subsequently set up to provide a local autonomous agency for the state but it has not yet been possible to bring formal relationships into entire accord with this plan; that is to say, all sales of the Iowa Livestock Marketing Corporation are billed in the name of the National Order Buying Company. The former, however, has insisted that no commission or service charge be paid the latter on business moving direct from members of the Iowa Corporation to local packers. (While this book was in page proof information was received that, in future, sales made by the Iowa Livestock Marketing Corporation would be billed in its own name.)

[17] As sales manager the new state marketing association secured the man who had developed the strikingly successful Fayette Producers' Company of Ohio, which was the precursor of the Eastern States Company and the National Order Buying Company. His personal abilities promise much for the successful development of the new undertaking.

membership of the National. The idea of state associations, however, is still more or less active, such an organization having been effected in Illinois in February, 1931 and others being under way in Kentucky, Wisconsin, and other states of this region. Meanwhile, the Ohio Livestock Co-operative Association is following a quiet but vigorous course of development as a marketing agency, and should at no distant date be ready for membership in the National on the same footing as the Iowa Corporation.

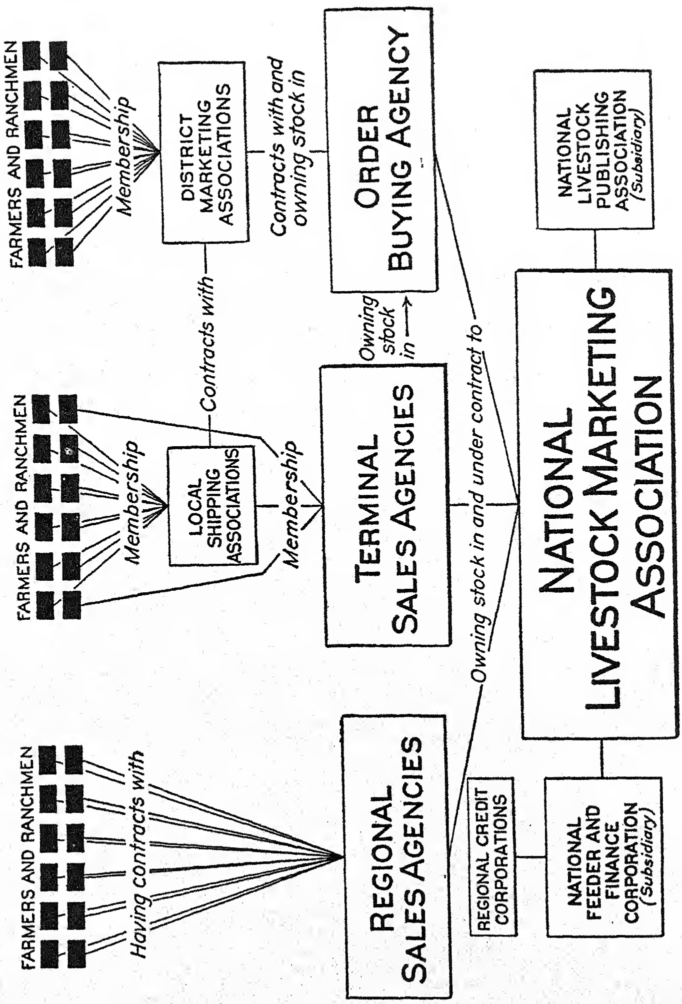
Another line of organizational development is in the formation of additional terminal agencies. We have given in the earlier part of this chapter an account of the events which led up to the formation of such an agency at St. Joseph, Missouri. Later in February a terminal commission agency was launched at Louisville, Kentucky, and during the same month the Farmers' Union Commission Company of South St. Paul effected a reorganization which brought it within the requirements of the National Livestock Marketing Association and was admitted to membership. This brings the number of terminal sales agencies to 16, of state or regional agencies to 4 and, with the National Order Buying Company as a member of the system, the number of sales agencies serving patrons of the National system, to a total of 21.

The place of the National Order Buying Company in the system is still highly ambiguous. It has been admitted to membership in the National on the same basis as terminals, state associations, and regional sales agencies. It is supposed to furnish an order buying service to all other members of the system. For the continuance of the business which it originally developed in the Ohio region as the Eastern States Company, it maintains branch offices at Columbus and

on the Pittsburgh, Buffalo, Cleveland, and Cincinnati markets. It has established another branch at Cedar Rapids to handle such business as comes from the Iowa Livestock Marketing Corporation. Its field of activity on the terminal markets is contingent upon the needs and desires of terminal agencies of the National system operating at these points. That is to say, it can enter such markets only at the invitation of the co-operative terminal if the latter is dissatisfied with the character of the order buying outlet at that point and desires the service of the National Order Buying Company. Such a situation existing at the East St. Louis market led to the establishing of a branch of the National Order Buying Company at that point on August 4, 1930. Forty-two commission firms and order buyers[18] promptly refused to have any dealings with National agencies on that market. The latter responded with an appeal to the Packers and Stockyards Administration, which held hearings during November and December, and on February 24, 1931 the Secretary of Agriculture rendered a verdict adverse to the forty-two firms. Under this order the offending agencies were to "cease and desist" from their obstructive practices or be suspended from the market for a period of ninety days. But on March 21 they secured a restraining order from a federal court suspending the penalty till June 20. This precludes any great development of the National Order Buying Company at that market for the present.

The chart on page 320 has been prepared by the Federal Farm Board to set forth the relationships between producers and the several parts of the National livestock marketing system. This shows farmers and

[18] Including practically all members of the livestock exchange and the rival co-operative agency—the Farmers' Livestock Commission Company.




Federal Farm Board *Bulletin* No. III, p. 21.

ranchmen making their contact with the system through membership in any one of five different organizations:

(1) A local shipping association which in turn is a member of a terminal sales agency
(2) A local shipping association which holds membership in a district marketing association
(3) A terminal sales agency
(4) A district marketing association
(5) A regional sales agency

The chart is somewhat inadequate to make clear all the complex relationships between the several associations embraced in the system. For example, district marketing associations join state or regional sales agencies and state or regional sales agencies become members of the order buying agency.

It would be desirable if the structure of the system for purposes of extending credit could also be shown. Regional credit corporations have been set up at Fort Worth, Denver, and Salt Lake City in addition to the one previously operated under the Producers system at St. Louis. These regional credit corporations are structurally related to both the regional and terminal sales agencies since the terminal agencies (together with the National)[19] subscribe the major part of the capital stock of the credit corporations, and loans come to the credit corporations through the sales agencies which are members of the National system and must be endorsed by them.

## IV. THE FARMERS' LIVESTOCK MARKETING ASSOCIATION

When organization of a national livestock marketing association under Farm Board auspices was finally perfected on July 15, 1930, it embraced only those

[19] For the time being. See page 299.

agencies which had formerly been associated with the National Producers system, the independent house at Springfield, Illinois, and three organizations from the range country. Other organizations, which had found the Farm Board plan unacceptable, met in Omaha on July 22 and there launched another "national" organization which they christened the "Farmers' Livestock Marketing Association." It embraced the Farmers' Union firms operating at Chicago, Omaha, Kansas City, St. Joseph, Denver, Sioux City, Wichita, and Sioux Falls; the Central Co-operative Association of St. Paul; the Farmers' Livestock Commission Company of East St. Louis; and the Missouri Farmers' Association Livestock Commission of Springfield. The Farmers' Union house of South St. Paul, although affiliated with this group in its previous negotiations with the Federal Farm Board, was absent from the Omaha meeting and subsequently joined the National (see p. 318). The Equity Livestock Commission Company of Milwaukee also was absent though invited.

The Farmers' Livestock Marketing Association was promptly incorporated, and the general manager of the Central Co-operative Association was employed as general manager. Headquarters were established at St. Paul. The articles of incorporation and by-laws adopted were practically without modification those drafted by the original committee of nine appointed at the first meeting called by the Federal Farm Board. It was stated that:

> This was done because these articles seemed to meet not only the ideas of this group but of practically every co-operative livestock marketing group in the United States as all of these groups had been represented on the original committee of nine. It was also considered advisable because of the fact that these articles and by-laws had already been

approved by the general counsel for the Federal Farm Board and were known to meet all of the requirements of the Agricultural Marketing Act.[20]

The service activity on which immediate interest centers is that of an order buying department,

the object of which will be to secure orders from packers and other buyers throughout the United States and place them with representatives of the Farmers' Livestock Marketing Association on the various markets which are served by each member agency, the purpose being to give the producer closer contact with the buyer of his product and to distribute these orders so that they can be filled to the best advantage to the packer and will at the same time have the effect of stabilizing all of the Corn Belt markets.

There are now hundreds of private order buying agencies on these various markets which are operating on a small scale, each representing a few Eastern packers. It is believed that a much better service can be rendered to these packers through one agency of national scope which can distribute these orders to all markets wherever they can be filled to best advantage. It may also be advantageous at times to fill some of these orders directly from country points but it is contemplated that if it becomes necessary to organize any producer-owned concentration yards in the country, these concentration yards will be handled in such a manner that the terminal agency will control the sales policies so that all livestock handled through the national organization will be passing through the same organized sales channels, and that hogs concentrated in the country cannot be used to hammer down the price of those shipped to the terminal markets or vice versa.[21]

In addition to the order buying department, the plan of organization provides for the establishment of statistical, publicity, legal, traffic, and finance departments or such of these or others as the board of directors may find advisable. The program, however, is to develop such services (with their accompanying

[20] *Co-operative Shipper*, August, 1930, p. 7.
[21] *Ibid.*, p. 8.

expense) only as the actual need arises and to keep overhead costs at the lowest possible figure. Member agencies subscribe to the capital stock of the national association at the rate of one share ($10) for each ten cars of stock handled. There are to be no annual dues. Each member agency has one vote in the election of directors for each share of stock owned, thus making voting control correspond to volume of business done.

The Farmers' Livestock Marketing Association within a few weeks of its formation requested a loan from the Federal Farm Board's revolving fund. Its request was denied on the ground that one national livestock marketing agency had been set up and had received the Board's recognition, and that whatever aid the Board might extend to co-operative livestock marketing would be through this channel alone. In response to some criticism that this action was discriminatory against a group within the co-operative livestock marketing movement, whose form of organization was fully in accord with the requirements laid down in the Agricultural Marketing Act of 1929, the Board gave publicity to a resolution which it had adopted on September 26, 1930 as follows:

> WHEREAS in an effort to develop a unified plan for the the effective marketing of livestock upon a national scale, the Board has recognized the National Livestock Marketing Association as a co-operative association for the marketing of livestock and has made commitments thereto, and
>
> WHEREAS such recognition was accorded only after conferences extending over many months, during which time all co-operative livestock agencies had an opportunity to and did present to the Board and its representatives plans and suggestions for such a unified organization, and
>
> WHEREAS the Farmers' Livestock Marketing Association, through Mr. F. B. Young and Mr. J. S. Montgomery, has this day made oral application for loans to it as a national livestock marketing agency, and has fully explained

its proposed plan of operation, which plan appears to the Board to conflict with the provisions of Sections 1 and 7 of the Agricultural Marketing Act, and

WHEREAS facilities for livestock marketing are available to all producers upon terms which are, in the judgment of the Board, fair and equitable,

NOW THEREFORE BE IT RESOLVED that said application of Farmers' Livestock Marketing Association be declined.

BE IT FURTHER RESOLVED that the good offices of the Federal Farm Board be made available at any convenient time and place to meet with authorized representatives of co-operative livestock marketing associations to aid them in any way in unifying their marketing programs.[22]

This action of the Board rests upon its interpretation of the declaration of policy contained in Section 1 "to promote the effective merchandizing of agricultural commodities . . . by preventing inefficient and wasteful methods of distribution [and] by encouraging the organization of producers into effective associations or corporations under their own control for greater unity of effort in marketing," and of the injunction in Section 7 that "no loan should be made to any co-operative association unless, in the judgment of the Board, the loan is in furtherance of the policy declared in Section 1." In a word, the Board took the position that the Act requires it to deal only with one organization in any given commodity field since the existence of even a second large federated agency would result in wasteful competition and in less efficient marketing of the product. This is a highly doctrinaire interpretation of the mandate given the Board by Congress and one which is found unsuitable to be carried out consistently in other commodity fields.[23]

At all events, the Farmers' Livestock Marketing Association has found itself denied the aid of the

[22] Federal Farm Board *Press Service,* No. 1–97.

[23] We shall analyze the policy further in Chaps. XVII and XVIII.

Federal Farm Board in dealing with its marketing problems. Its member associations have the alternative of joining the National Livestock Marketing Association or developing such an overhead organization as may be possible through their own unaided efforts. During the eight months since the formation of this association the work has proceeded slowly, since it had to begin from the bottom and has not been stimulated by Farm Board prestige and direct aid. Member associations have not had experience in working together such as was acquired by the Producers during several years' existence of the old National.

Meanwhile one of the Farmers' Union houses (St. Paul) has joined the National system, and terminal agencies of the National have been established on two other markets (Denver and St. Joseph) where Farmers' Union houses were already located. In the latter case, several of the farmers' organizations which formerly had been supporting the Farmers' Union commission house have transferred their support to the new agency affiliated with the National. It seems probable that, unless the Farmers' Union houses at other markets, notably Omaha, should decide to align themselves with the National, the latter will open agencies at these points also to serve farmers in the region who desire to participate in the National livestock marketing plan. It does not follow that the patronage of such new agencies would be drawn from the existing terminal associations or would interfere in any serious way with their business. Such volume as they attract might come wholly or largely from producers not previously affiliated with any terminal co-operative. Likewise, any losses which the old houses do suffer might quite possibly be offset or overbalanced by gains accruing from renewed activity

among the interests favorable to this group. Competition in service between the National Livestock Marketing Association and the Farmers' Livestock Marketing Association might be stimulative to both.

At present the Farmers' organization has initiated an order buying system at South St. Paul, and plans to extend it to several other markets. Three members of this group have credit subsidiaries which discount livestock loans through the Intermediate Credit system, and three others have similar discount arrangements with private banks. It does not appear that they will be seriously handicapped in this phase of marketing service. The growth and eventual success of the Farmers' Livestock Marketing group will depend on how well farmers are satisfied with the quality of service rendered, the cost of this service, and a complicated play of personal considerations, loyalties, and rivalries.

# CHAPTER XVII

## ECONOMIC ISSUES

Obviously the time is not yet ripe for anyone to venture a very definite, much less final, judgment as to the economic soundness and value of the livestock marketing organization which has been set up under Federal Farm Board auspices. The Agricultural Marketing Act itself is a novel and experimental piece of legislation. The intent of Congress in passing it and the precise powers which it confers are still subjects of study by the Board which it created. Practical possibilities in realizing the hopes which were embodied in the Agricultural Marketing Act must be further explored both by the Board and by the marketing agencies which it has sponsored. Policies are only in the process of being defined, and practices are being worked out in the hard school of experience. The Farm Board as a guiding force in agriculture is still in the formative stage of its evolution.

Equally provisional must be the initial form and early lines of action of the marketing agencies which the Board has created. The National Livestock Marketing Association has not yet completed the first year of its existence. Personnel and policies are in the inevitable "settling down" stage. It is too early to count marked success as assured; but it is not too late to make whatever changes may be needed to guard against dangers, or to enlarge and hasten a successful outcome. Such a moment is no time to "rock the boat" or to indulge in destructive criticism of men or measures. It is an eminently fitting time for sympathetic and matured reflection upon the economic principles

and business policies explicitly espoused or implicitly entertained by the leaders and membership of this important organization. The major issues which we shall discuss fall readily under three heads: (1) market machinery and practices, (2) price objectives, and (3) stabilization of the industry.

## I. MARKET MACHINERY AND PRACTICES

The marketing machinery provided in the National Livestock Marketing Association and its constituent and subsidiary organizations continues and expands what was already known and in use rather than displacing it with anything new or radically different. The real changes consist in the greater emphasis placed upon direct marketing activities and the provisions made to develop a co-ordinated marketing system rather than a series of individual and to an extent competitive units. In this program the expansion of direct selling activities has a large place, and so we shall look first at the two phases of direct marketing.

*The merchandising of range stock direct to the feeder is a sound and valuable reform in the marketing system.* The method by which feeder cattle and sheep have been dumped from the ranges into the primary livestock markets for peddling out to feeders retains much of the crudity and waste of a pioneer system. It entails considerable expense for the maintenance of sanitary precautions, and even then involves some danger of scattering infection. The delays due to maladjustments of supply to demand are expensive and often cause stock to become "stale" so that considerable time is lost in restoring weight and condition and starting a satisfactory rate of gain in the hands of the feeder. Recurring gluts and shortages likewise necessitate the interposition of speculative operations by traders on the feeder markets. The burden of these

additional operations must fall upon either the rancher or the feeder or be divided between them.

The average feeder who goes to market to buy unfinished stock feels that he must get a predetermined number within a predetermined time and get back to his farm. This pressure, together with their susceptibility to the more or less unfamiliar surroundings of the big market place, causes farmers to bid against one another until they force prices to a point not justified by broader or longer-run conditions. The individual farmer is seldom so adroit a bargainer or so well informed as the salesmen and traders with whom he must deal. Even though he generally buys through a commission man, the latter can often drive a better bargain if the farmer is not there.

The rancher also often finds himself ill-fitted to cope with this uncorrelated competitive market. Following his individual judgment in market situations of which he can hardly be expected to have an adequate basis for sound appraisal, he is likely, every now and again, to be stampeded into action from which he suffers and by which the whole market is demoralized. Intelligent group action which links feeders and ranchers in a system of direct collective bargaining should stabilize the structure of prices to the benefit of both groups in terms of average prices over a period of years. It should eliminate or greatly reduce the toll of equalizing operations on the part of professional speculators.

Experimental undertakings in direct marketing from range to feed-lot have been under way for some years and have proceeded from both the growers' and the feeders' initiative. While mistakes in plenty have been made, and serious difficulties still stand in the way of any comprehensive development of the practice, it is our belief that the possibility of substantial

gain in this direction has been sufficiently demonstrated so that the movement of a major part of range stock direct to the feeder may be set down as one of the attainable goals of co-operative livestock marketing. It should be entirely possible for a competently managed feeder department to effect this movement at a distinct saving in handling cost and on a basis of price which would be advantageous to the feeder as well as to the rancher if computed as an average over a reasonable number of transactions.

The chief barrier to the working out of such a system lies in the innately speculative instinct of both parties to the transaction. Practically all livestock men consider themselves sharp "horse traders," and derive a considerable thrill from trying to "hit the market right." They tend to remember their own successes and forget their failures. On the other hand, they always remember and magnify the errors of an outside agency which handles their transactions, and generally minimize its favorable results. The pooling method should be used in the handling of all feeder transactions in order that an averaging of results may be effected. Beyond this, however, it is necessary for those who participate in the system to learn the lesson that permanently organized business must operate under the law of averages. Co-operation has introduced this basic principle into farming, but the farmer has been all too slow to take advantage of it.

*The practice of merchandising finished stock direct to the packer can be expanded and perfected.* The method of stockyards concentration and competitive bidding on the basis of personal inspection is no doubt destined to retain an important place in the system of selling livestock for as long a period as we can now forecast. At the same time, the throwing of a large

percentage of our livestock upon these centralized markets prior to its subsequent distribution to smaller centers is not compatible with the more recent trends in the organization of the packing business. From the standpoint of economy and efficiency, it is important that a semi-perishable product like livestock move by the shortest and most direct route with a minimum of physical handling, and this implies a good deal of direct but organized selling. Physical concentration of the total supply in a small number of very large markets for the purpose of going through a sort of auction sale is a needlessly cumbersome and antiquated method. It is our belief that the development of a comprehensive selling system covering all markets, private as well as public, presents the surest way of effecting possible economies and correcting wasteful practices and at the same time assuring competitive equality at all points and between all buyers both large and small.

If such a merchandising system can be effected it will mark a movement toward both centralization and decentralization. That is, it will take the selection of markets and the function of bargaining out of the hands of the local shipper, who in a majority of cases is neither trained nor equipped for the task, and centralize this selling function in regional offices well equipped in terms of information, facilities for quick communication, and skilled personnel. It will decentralize it to the extent that less "scalping," order buying, and even packer purchasing will be done on the great terminal markets.

With the system fully worked out there would be a significant saving in costs of physical handling and the incidental wastes and deterioration. These gains would not, we believe, be offset by a less advantageous price situation. In fact it seems not too much to sug-

gest that developments in comprehensive and systematized direct selling may produce a change little short of revolutionary in the method by which American livestock is marketed. In the past it has been the practice for livestock producers to mass their stock with little standardization and nothing that could be described as "orderly marketing" methods. At certain consuming and re-shipping centers it has been bought by skilful and well-organized consuming interests. The co-operatives propose to match this strength and skilful "buymanship" with comprehensively organized and expertly managed salesmanship, and to push the process of standardization to the highest practicable limit. With these two reforms fully worked out, we may expect to find a system of merchandising which would be dominated by direct movement from producer to processor and the sale of only a minor fraction of the product taking place under quasi auction conditions of the present terminal stockyards type.[1]

*Other economies and improvements can be introduced by a widely representative organization.* Besides the economies which might be effected by reducing the amount of market handling through the direct merchandising methods just discussed, it is also possible to improve methods of handling both in transit and at the stockyards. The experience of widespread marketing agencies within the field of corporate capitalism as well as co-operation has demonstrated that research, standardized practice, and rigorous supervision can effect distinct improvement and cheapening of sales methods. The United Fruit Company, National

[1] The price aspect of the matter is discussed on pp. 335–39. Some interesting comments on this general development were presented by Professor Paul L. Miller in a paper "Trends in Livestock Marketing in the United States," delivered at the Second International Conference of Agricultural Economists at Cornell University, Aug. 22, 1930.

Dairies, Swift and Company, the American Cranberry Growers' Exchange, and the Great Atlantic and Pacific Tea Company of America afford ample evidence on this point.

In the case of livestock it seems clear that further work on the proper loading, bedding, and icing of cars, the handling of cripples, the salvaging of dead animals, proper feeding practices both in transit and at the terminals, methods of weighing and sorting, and numerous other details of shipping invites the attention of an agency large enough to establish a really scientific procedure. Already experiments have been made in studying packing-house yields and in carrying the results of such study back through all the stages of the marketing process and even into the field of production methods.[2] This work is still in its infancy, and a producers' organization of large and representative membership is needed to give it its maximum effectiveness. The day of hit or miss methods in the livestock industry can, under large-scale co-operative marketing, be brought to a close.

Through the direct marketing agencies which have been embraced in the new marketing system the attention of co-operatives will inevitably be sharply drawn to problems of the physical handling of stock, standardization, and adequate reporting of prices and movement at all markets, small as well as large. Probably the greatest gain in economy and efficiency in livestock

[2] These studies are under way at the Ohio Agricultural Experiment Station and promise some very valuable results. They should serve not only to guide the farmer in handling his productive operations but also to indicate the most feasible and equitable manner in which the marketing agencies can have payment made to the owner of livestock. See Ohio Agricultural Experiment Station *Bulletin* No. 409, pp. 19–20; *Bi-monthly Bulletin,* September-October, 1927, pp. 164–66; *American Co-operation,* 1930, Vol. II, pp. 206–11.

marketing will come when a widely representative co-operative agency puts itself in a position to supply buyers of livestock with just the class and quality of product which they order, and to guarantee that what is delivered will meet specifications in every detail. Such is the achievement in other commodity lines, and it is clearly within reach of the livestock group if they pursue it aggressively and intelligently.

The greatest barrier to the attainment of a satisfactory degree of solidarity in the co-operative livestock marketing undertaking as a whole is the failure to develop adequate support by an intelligently participating membership. This has been due in large part to the faulty conception of co-operative structure and membership relations. Inasmuch as this difficulty has not been entirely remedied in the present scheme of organization, we shall discuss the issue at some length in the following chapter.

## II. PRICE OBJECTIVES

While efforts to improve marketing machinery and practices are not lacking in the working program of the livestock co-operatives, higher hopes and keener interest seem to be directed toward the strengthening of the farmer's price situation through large-scale co-operatives. There are, of course, real possibilities in this direction. But there are also limitations which need to be borne in mind.

*Price fluctuations and disparities can be held within reasonable limits.* With human judgment as fallible as it is, and conditions changing as rapidly as they do in the market for so perishable a commodity as livestock, prices are bound to fluctuate continually above and below their theoretical normal. However, a properly constituted national co-operative should operate as a genuine stabilizer of these ever-recurring oscillations.

We have in Chapter XIV already indicated our belief that a co-operative agency which is supported by a sufficient volume of business to make it a dominating figure among the selling agencies on a given market has considerable power to resist any manipulative practices or even merely fortuitous aberrations in the course of prices on that market. With a system of agencies covering all or most of the markets, small as well as large, it would be possible under modern methods of easy communication so to co-ordinate selling activities that any considerable departures of prices from their correct supply and demand equilibrium would be quickly detected and corrective forces set in operation.

The best that any marketing system can do is to put the whole supply of its product in contact with the whole demand for that product in such a way that at all times every unit of supply has equal exposure to all units of effective demand and every demand unit has equal access to supplies as compared with any other.[3] Whatever the co-operative terminal agencies were able to do in their respective markets was inadequate not merely because of the uneven strength and lack of co-ordination among themselves, but also because of the large and growing volume of livestock being bought outside the terminal markets. By including the whole field of direct marketing within its jurisdiction, the new national organization sets its face definitely toward establishing competitive equality among all buyers and all sellers.

*It is through systematizing rather than through concentration of the selling function that the price structure will be made sound and equitable.* The hope

[3] See Nourse, E. G., "Normal Price as a Market Concept," *Quarterly Journal of Economics*, August, 1919.

of the newly-established organization lies in the fact that it provides a clearing agency through which markets of all types and sizes can better harmonize their selling efforts. Price-making forces operate just as significantly in the scores of non-stockyards markets which are dotted over the producing territory as in the larger terminals, their influence varying approximately with their size. Under present conditions of easy communication by telegraph, telephone, and radio it is possible for the local manager and even the individual farmer to have a quick, accurate, and comprehensive picture of the market situation which in the past was accessible only to the strongest firms in the largest metropolitan markets. If we grant that as much intelligence, business judgment, and merchandising shrewdness is possessed by people in small cities and large towns as by those in larger centers,[4] there is no reason to suppose that supplies would be equilibrated with demands any less skilfully or advantageously at one hundred broadly distributed transaction points than they would be at a quarter or a tenth as many large trading centers.

[4] A wide acquaintance with handlers of agricultural commodities at country shipping points, primary markets, and large terminals leads us to believe that this is a correct assumption. While the salesman in the terminal market knows more about certain phases of demand and about the actual supply situation at his particular point, the men in the country have a much more intimate knowledge of basic conditions of supply. Packing plants whose annual kill of hogs exceeds that of any plant located in Chicago are situated in certain small cities west of the Mississippi River. There is no reason to suppose that the bargain arrived at between the hog buyer of such a plant and an important shipper of hogs from a dense producing territory is based on any less thorough understanding of the whole run of market conditions or is carried through with any less sharpness or sagacity than that between a commission man and a hog buyer in Chicago, Omaha, or St. Louis.

We may point to the experience of the highly successful California Fruit Growers' Exchange as showing a somewhat comparable situation. With a semi-perishable product, better standardized than that of the livestock producers' organization, they have found the wisest course to keep the price-making function out of the hands of the central overhead organization and firmly within the control of the local packing-house authorities except as the latter have in some instances seen fit to delegate it to the managers of district exchanges.[5] Even the latter, however, are organizations of rather narrowly restricted geographic extent. Likewise the highly successful co-operative development of Denmark is based not on market coercion through a central organization striving for monopolistic control but rather on the diligent efforts of local or district managers to supply the quantity and quality of product demanded by the market and to bring it most directly into contact with that part of the market whose demand is at the moment most keen.

The great variety and changeability of demand conditions and factors governing the release of livestock supplies to the market make it necessary that a great number of minor bargaining adjustments be made by persons who can meet face to face or communicate promptly with each other by telephone. Any price formula which shall attempt to peg the price level for even so much as a day, or the price relationships between any group of markets, seems to us to lack the flexibility necessary for practical success. It is our

[5] After many years of working together in district units, the lemon producers have delegated to a special organization set up to represent the whole industry the function of adjusting shipping policy and the operations of the by-product plants so as to stabilize prices. It does not appear that an analogous situation will be presented to livestock producers soon—if ever.

belief that a more stable equilibrium can therefore be secured by a considerable degree of decentralization in the marketing organization. This implies selling autonomy vested in sales managers to represent terminal points and state or regional selling offices along substantially the lines being worked out by the Western, the Texas, and the Iowa marketing associations.

### III. STABILIZATION OF THE LIVESTOCK INDUSTRY

The price benefits which we have been discussing include the bringing of prices at points of feeble competition up to the general level and of smoothing out short-time peaks and depressions. This would make returns more equitable and predictable rather than put them on a higher general level.[6] Beyond this, however, some leaders of the movement go a long way in forecasting marked gains to the livestock industry through the reduction or elimination of the longer price swings. Such possible gains have frequently been set at figures

[6] Although D. L. Swanson, manager of the Chicago Producers Commission Association, argues (Illinois Farmers' Institute, Galesburg, Ill., Feb. 19, 1930) that with a price range of 7 to 16 cents on hogs the seller averages $9.60 per hundredweight, but that stabilization could be effected by co-operatives to the extent that the range would be 8 to 14 cents and the seller's average $10 per hundredweight. No statistical demonstration of the proposition is offered, but the argument on which it is based runs as follows: He claims that it is the marginal packer who benefits from the periods of bargain prices of livestock. They enable him to buy raw materials which he puts on the market also at bargain prices in order to draw buyers from the packers with established sales outlets. This demoralizes the meat trade and harms the better packer without doing the marginal man any real service since he is chronically in straits and sooner or later is forced out of business. Mr. Swanson concludes that if there were not such extreme breaks in the prices of livestock the wild-cat packer or slaughterer would be eliminated and responsible concerns could afford to pay the extra 40 cents in a better stabilized market.

Both the facts and the price theory underlying this argument would need careful study.

as high as $350,000,000 annually[7] for swine production alone or at $2.00 per hundredweight on hogs.[8] In the presence of such claims it must be remembered that the livestock market is already competitive on its buying side to a degree that makes marked price enhancement through the mere force of concentrated selling highly improbable. Consumers' ideas and habits and the availability of meat and animal fat substitutes put the producer in a poor position to force prices through mere unification of sales organizations. Some gains can no doubt be secured from a more skilful and better co-ordinated sales system. But to promote the movement on the expectation of financial benefits on the $350,000,000 level is merely to pave the way for disappointment and defection.

*The more ambitious plans for price stabilization must wait on stabilization of production.* This is admitted by the more astute or better-trained leaders in the movement, and they look forward to the day when this national co-operative organization primarily for marketing will so extend its functions as to have an influence, not to say control, which will make it possible to maintain prices at the level conceived to be necessary for the maintenance of the industry. The livestock member of the Federal Farm Board had formulated such a plan of stabilization even before the Agricultural Marketing Act was passed.[9] It is based on the proposal that the total volume (in weight) of livestock offered on the market be adjusted to the con-

[7] *Hearings* before the Committee on Agriculture and Forestry, U. S. Senate on Confirmation of Members of the Federal Farm Board, Sept. 27, 1929, pp. 163, 167; also *National Livestock Producer*, October, 1929, p. 6.

[8] Minutes of Lucas County Iowa Farm Bureau directors' meeting, Sept. 22, 1930.

[9] Since accepting membership on the Board he has frequently reiterated his belief in the plan.

sumer demand for meat. The method can best be set forth in his own words:

During 1928 we sold, under federally-inspected slaughter, 49,800,000 hogs. In 1926 we sold 40,600,000 hogs. The 1928 hog crop brought farmers $140,000,000 less than the 1926 crop. We paid a mighty high penalty for over-producing!

Because of the more than 40 per cent fluctuation in hog prices last year, three-fourths of the hogs were sold for less than cost of production, and only one-fourth brought a profit . . . How could this tragedy of the 1928 hog price decline have been averted?

We have figures on the average weights of market hogs since 1879, just fifty years. During the past ten years the average hog on the market has weighed right around 228 pounds and in 1928 averaged approximately 230 pounds.

In 1928, even with the same number of pigs, if the hogs had been marketed at an average weight of 200 pounds instead of 230, the total tonnage would have been very little more than in 1926. It is the total tonnage of pork, not the number of hogs, that does the damage. Therefore, just as good a price might have been expected as in 1926, and perhaps better since the lighter carcasses would have yielded the smaller cuts and packages demanded by the present-day housewife.

How could the average weight have been brought down to 200 pounds? Under the stabilized price plan it might have been determined in advance that this was the desirable weight, since figures as to the number of hogs are available not long after most of them are farrowed.

Suppose then that by agreement the price of the principal grade of 200-pound hogs had been determined at 12.5 cents a pound, the 1926 average price, and that for 230-pound hogs only 9.2 cents, the 1928 average, would be paid. Thus the producer of the 12.5-cent desirable hog would get $25 a head. The fellow who insisted on "over-producing" a 230-pound hog would get $21.16, less money by $3.84, and nothing at all for the corn and labor to make the unwanted extra 30 pounds.[10]

[10] Denman, C. B., "Can We Stabilize Livestock Prices?" *Farm and Fireside,* July, 1929.

*Such a scheme of production control places undue emphasis on unit price.*[11] We do not quarrel with the logic of the proposition that scaling the weight of hogs could be made a reasonably effective device for pegging price and total cash return at a desired point. On the other hand, such a procedure implies that the production of hogs for slaughter is organized along lines of manufacture of a finished product from raw materials purchased in the open market. Were this indeed the condition of farm organization in the Corn Belt, the project might not be impracticable. As a matter of fact, however, hogs are produced as a joint enterprise within a system of general farming which is practiced over a wide area. If, in order to peg prices at a particular point, hogs were fed to a lighter weight than that indicated by established animal husbandry practices, a considerable part of the corn crop would remain as a surplus above such feeding operations. Its value would fall sharply, thus making the feeding of cattle and sheep extraordinarily attractive, increasing the supply of these species of livestock on the market, and intensifying their competition with pork.

It may be replied that this situation could be handled by applying the same remedy throughout the livestock industry. If this were done the remaining part of the corn crop would be an absolute surplus which could be removed only by diverting the land which produced it into other lines of production, thus aggravating the price situation in the case of wheat, cotton, or other crops. The simple fact is that the price of livestock cannot be regarded as an absolute figure but must be considered relatively with reference to other products of the farming industry. It is by no means clear that

[11] That is, the money price per hundredweight as contrasted with the total net income derived from the livestock industry and from agriculture as a whole.

American agriculture can at the moment be made more profitable by the curtailment of livestock production. In view of its close interrelation with dairying, wool growing, and crop production, it would appear that any workable program of production control in the livestock field will have to go hand in hand with readjustment not only of the national farming industry but even of the agriculture of the world.

*Even waiving farm management considerations, production control demands much wider participation in the co-operative organization than can now be counted on.* To say this is to defer rather than dismiss the possibility of some significant influence over productive operations on the part of a national livestock marketing organization. But that organization will have to have many years of growth, solidification, and acceptance of its leadership on the part of a substantial majority of the livestock producers of the country. It seems probable that by the time that is accomplished the agricultural industry of the United States and of the world will have effected post-war readjustment to a degree which will present an easier situation within which the livestock industry can try out experiments in supply stabilization.

*The economic foundations of the National Livestock Marketing Association are essentially sound.* Our analysis as set forth in this chapter arrives at three general conclusions. (1) The system provides for and promises considerable improvement in physical and commercial methods of handling and merchandising livestock. We only hope that more emphasis will be given to this phase of the work. (2) Consolidation and co-ordination of this large group of marketing agencies points to a more consistent and equitable price structure, better safeguarded against local manipulation or short-time raids by powerful buying interests.

We differ from what appears to be the prevailing opinion in the National and on the Farm Board in that we do not believe the extreme concentration of control over the selling function in a single national organization is essential to the attainment of maximum success in livestock marketing. It is not through sheer weight and strength but through skill and flexibility that the most advantageous selling is to be achieved. (3) We believe that production programs must for the present be governed by farm management considerations more than by market strategy. Production adjustment therefore represents a long-time goal of the movement rather than an immediate objective.

If these conclusions are sound, a golden opportunity to demonstrate the value of co-operative organization in the farmer's service lies within the reach of the National Livestock Marketing Association. If it fails to grasp this opportunity the fault must be charged to shortcomings of leadership or to defects in the co-operative structure of the organization. Time alone will illuminate the first of these issues. The following chapter will discuss the second.

# CHAPTER XVIII

## CO-OPERATIVE PRINCIPLES AND FARM BOARD INFLUENCE

To problems in the realm of practical business such as were discussed in the preceding chapter, no commercial organization can give a conclusive answer in advance. They must be worked out, with greater or less success and completeness, in the unfolding process of actual operation and the periodic reconsideration and reformulation of business policy. Such adjustment of economic means to ends can be satisfactorily effected in a co-operative association only if the organization itself has been constructed along right lines. If set up as a co-operative in fact as well as in name, the members will be in a position not merely to understand and abide by the results of administrative decisions but also to participate in such formulation of policies and to make positive contributions to carrying them out. It becomes a matter of great moment, therefore, whether developments thus far under Federal Farm Board auspices have been carefully considered and structures skilfully fashioned in conformity with co-operative principles. In several particulars it seems to the writers that this has not been the case.

*Political expediency has overruled co-operative doctrine.* The Agricultural Marketing Act of 1929 authorized the Federal Farm Board "to promote education in the principles and practices of co-operative marketing . . . to encourage the organization, improvement in methods, and development of effective co-operative associations." In view of the multiplicity

of influences and diversity of counsel which have characterized the evolution of the co-operative movement in the United States,[1] it would have been an entirely logical procedure for anybody receiving such instructions to defer positive action until such time as he could carefully examine the nature of co-operative structures and practices and to determine therefrom what course should be pursued in future educational and organizational efforts. But the Farm Board realized full well that it was called into being as an agency for action and not as a deliberative assembly. The relief of agricultural depression had become a political issue, and it was a party promise that legislation would be enacted which would provide a positive agency for such relief. The chairman of the Board was selected with special reference to his reputation for producing results. The country looked to the President, and the President looked to the Farm Board, for a succession of swift and effective moves. The chairman expected each of the commodity members of the Board to give him the correct cue to follow in his particular department and to be an able and effective general in carrying out the plan of campaign which should then be agreed upon.

Results were at a premium. The Agricultural Marketing Act of 1929 suggested that these results be accomplished under the banner of the co-operative movement. If, however, economic democracy should prove itself too slow in action, then short-cuts must be found. Hence the Board has been inclined to interpret the term "co-operative" in accordance with patterns of thought and action familiar to the "big business" exec-

[1] Nourse, E. G., *The Legal Status of Agricultural Co-operation*, Chaps. II–XVI.

utive[2] and the corporation lawyer rather than the distinctive ideals which characterize the co-operative movement.[3] It is to be questioned whether the national

[2] "Alexander Legge built up the International Harvester Company by going out and getting business. That's what we have to do . . . By 1940 the National Livestock Marketing Association should be handling at least 40 per cent of the livestock of the country, but long before that time the National will be recognized as an important part of our national economic structure and you will have the same standing in the agricultural field and occupy the same position of leadership in the livestock industry that General Motors, American Telegraph and Telephone, and other giant organizations occupy in their fields." Randell, C. G., chief, Livestock and Wool Section of the Division of Co-operative Marketing of the Federal Farm Board, Address at the first annual meeting of the National Livestock Marketing Association, Chicago, March 11, 1931, *National Livestock Producer*, April, 1931, p. 10.

[3] One of the most significant instances of the abandonment of co-operative principle is to be found in connection with the Iowa Livestock Marketing Corporation. This organization was set up under the general corporation law of Iowa rather than under the co-operative statute. Sixty per cent of the stock of the Corporation is held by the state Farm Bureau Federation, thereby vesting control in that body rather than in the livestock producers directly concerned in the operations of the association. The reason given for this action is that the Farm Bureau Federation needs to keep control over the Marketing Corporation in order to assure the safety of the funds which it has advanced. However, it is not practicable for the Federation to direct policies and activities of the Marketing Corporation to a degree which would have any real bearing on the latter's ability to meet capital charges and liquidate its obligations. Commitments made to it will be safe or risky just in proportion as the Marketing Corporation succeeds, and the greatest factor in this success is the united support of the livestock interests of the state. To obtrude Farm Bureau control into the picture simply accentuates lines of cleavage within the commodity group, whereas the chief aim of a national livestock marketing organization is to remove such cleavages and unify the whole industry. (Compare p. 279.)

Furthermore, even the legality of the Iowa set-up is open to grave question. The articles of incorporation of the Iowa Livestock Marketing Corporation state:

"Any substantial producer of livestock, and regional or district livestock marketing association, or other organization of

marketing enterprises which have been promoted by the Federal Farm Board can properly be designated as co-operative.

They are, of course, mutualized corporations in the sense that residual benefits go to the member patrons and not to stockholders. The patron member, however, has so remote a contact with the organization and so little of a sense of participation in its management that the essential character of the co-operative

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farmers as herein described, shall be eligible to subscribe for, be the transferee of, or hold stock in this Corporation if it meets the conditions of an Act of Congress approved February 18, 1922, entitled 'An Act to Authorize Association of Producers of Agricultural Products,' and is otherwise found eligible by the board of directors hereof . . ."

The Iowa Farm Bureau Federation is not a "producer of livestock" nor a "regional or district livestock marketing association." If it is to qualify at all it must be as an "other organization of farmers as herein described." Inasmuch as there is no further description of any other type of farmers' organization we must assume that this is meant to include any farmers' organization which "meets the conditions of an Act of Congress approved February 18, 1922 [etc.]," namely, the Capper-Volstead Act. However, the provisions of the Capper-Volstead Act apply only to "persons engaged in the production of agricultural products, as farmers, planters, ranchmen, dairymen, nut or fruit growers [acting] together in associations, corporate or otherwise, with or without capital stock, in collectively processing, preparing for market, handling, and marketing in interstate and foreign commerce such products of persons so engaged."

The Iowa Farm Bureau Federation was incorporated March 5, 1921 as an educational and general welfare organization of farmers. By amendment of its articles on February 24, 1925, October 9, 1926, and February 15, 1928, the Federation was authorized to "buy and sell, directly or indirectly, by agent or otherwise, co-operatively or otherwise, produce, crops, livestock, and any other article of personal property raised, kept, or used on the farm, or any service or benefit used by farmers or its members; act as a marketing agency upon a co-operative basis [etc.]." The Federation never has actually carried on livestock marketing work and cannot rely upon the word "indirectly" in its amended articles to qualify it as a livestock marketing

association is almost completely lacking. This means, on the one hand, that his continued adhesion to the organization must be based largely upon measurable (and rather immediate) pecuniary benefits and not upon belief in the value of long-time results to be accomplished through group organization and loyalty to such constructive programs as he himself has helped to formulate. On the other hand, it means that the potential savings which co-operation proposes to make by utilizing the voluntary and gratuitous participation

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organization in the present instance. The Federation is a general farmers' organization, including producers of grain, dairy products, and other farm commodities. It has not limited nor indicated any intention of limiting its membership exclusively to producers of livestock who market their product through the Iowa Livestock Marketing Corporation.

To be sure the Federation on January 31, 1931 further amended its articles to specify that "whenever the Federation shall direct or carry on any co-operative marketing service, either directly or through agencies directed and controlled by it, there shall not be paid a return on the stock or membership capital used therein in excess of 8 per cent per annum, and any net income in excess of reasonable additions to reserves as established shall be distributed to the patron members as producers on the basis of patronage" and other provisions designed to conform to the Capper-Volstead Act. In spite of these attempts to secure technical eligibility, the whole arrangement runs counter to the long-established practice of co-operatives to require the surrender of stock by any subscriber who fails to take up or who subsequently withdraws from the lines of business for which the association was formed. It also violates the general principle subscribed to by the Farm Board that co-operative organization shall be by commodity groups, and seeks to evade the principle laid down by the Board as to interlocking relationships between commodity associations and general farm organizations (see p. 359). At best it is dubious as to the letter of the law and, even if upheld on legal technicalities, runs counter to the spirit of co-operation. The mere statement in the articles of incorporation that "this Corporation is formed to function on a co-operative basis for the mutual benefit of its stockholders" is empty of meaning unless the actual provisions contained elsewhere in the articles and by-laws are such as to give it a genuinely co-operative character.

of its members will to a greater or less extent have to be dissipated in promotional work. This is the major one of the "wastes of competitive capitalistic business" which the co-operative is supposed to avoid.

*Development of a livestock marketing organization has proceeded along promotional rather than co-operative lines.* Besides zeal for quick and spectacular results, there has been a keen desire not to jeopardize the volume of business already developed by co-operative agencies nor to invite the opposition of persons whose individual interest might be prejudiced by any thoroughgoing readjustment. Hence efforts were directed toward a comprehensive merger of existing agencies. The idea that the soundest course in the long run would be to throw all pre-existing interests into the melting pot to see what might be fashioned anew with the single purpose of best serving the needs of the whole industry, even if entertained at the start, was not held to with sufficient tenacity to resist factional pressure. There has not been adequate effort to get the point of view of the man in the country and the point of view of those who were attempting to build a marketing system for him [4] clearly set forth and mutual understanding reached. Plans hastily formulated by a small group were taken out to the

[4] While members of the Board and its responsible professional employees disavow any intention of limiting the freedom of action of co-operative groups, it is evident that they wield an enormous influence in initiating marketing undertakings and still more definitely in vetoing those of which they do not approve. The importance of their control of funds makes this inevitable.

As one state representative in a meeting called to organize a national association put it: "We did certain things at our last meeting—no, I mean we thought we did certain things. But we found out that the Farm Board don't want it this way and it was all off. Now let us find out what the Board wants and will approve before we take action. That is the only way to accomplish anything."

country for immediate execution. Too often those who asked questions for the sake of arriving at a correct understanding of the proposals made have been branded as obstructionists.

Resistance to these tactics has resulted in long delay in getting any livestock marketing plan under way. Meanwhile personal animosities have had time to incubate and rival organizations to entrench themselves in territories which at the beginning had been favorably disposed toward entering a national system. Some adjustments have already been made, and it is to be hoped that at least the more serious defects of the Farm Board plan will ultimately be corrected. But even if this is done, much delay has been incurred and valuable ground lost.

The fact that organization has proceeded along promotional lines and assumed the character of an industrial merger rather than a co-operative growth links this discussion with the point already made in our chapter on economic issues. That is, reorganization along the lines which have been followed does not promote maximum service at minimum cost. It retains the wastes of competition between selling agencies set up as separate entities with commercial careers of their own to consider. We shall point out presently the manner in which this could be obviated by a truly co-operative set-up of one unified producers' organization with a single comprehensive selling service. We need hardly do more here than point to the piling up of solicitation or field service cost in overlapping territory of terminal associations (see Chapter XIII) and the controversy over the National Order Buying Company (see Chapters XV and XVI) and its still ambiguous position.

*The Farm Board is intolerant of other brands of co-operative endeavor in livestock marketing.* It

demands that everybody "climb on the bandwagon" or take his chances of being crushed under the wheels. Co-operative doctrine as evolved by the older leaders expressed a spirit of "live and let live." Where any group of producers undertook to improve their marketing service and better their economic position, it was held that they should be given the benefit of any helpful experience acquired by co-operative organizations previously in the field. The American Institute of Co-operation was set up in 1924 as a means of furnishing an open forum to which co-operatives of all types and patterns might come, contributing of their experience to the enlightenment of others and in turn gaining from these others some new wisdom for the future shaping of their own course. It holds that the vital elements in co-operation would be blighted if all were forced to conform to a single pattern of organization or to join a single association. This policy of liberalism has been continued in the National Co-operative Council, a trade association of co-operatives growing out of the Institute experience.

The Federal Farm Board manifests no such spirit of toleration. Its action in refusing recognition or aid to any outside the National Livestock Marketing Association is neither justified in the law nor consistent with its own action in the case of other commodities—notably fruits and vegetables and dairy products. It is utterly fanciful to say that the Board is estopped from dealing with a second group because of the mandate in the law that it prevent inefficient and wasteful methods of distribution, avoid duplication of agencies, and promote greater unity of effort in marketing. These are mere statements of general purpose and only by an interpretation strained to the point of breaking could they be construed to support

the Board's action in denying aid to livestock marketing agencies which do not elect to join the National.[5] Its position is rendered all the more untenable by the fact that the officially recognized organization has set up both selling and credit agencies in territories already served by non-adhering associations. Thus Farm Board agencies themselves cause duplication of service and increase the burden of competition and lessen the "unity of effort in marketing" enjoined by the law.

As a matter of fact, both the National Livestock Marketing and the Farmers' Livestock Marketing groups have sufficient size and solidarity to develop highly efficient marketing organizations. On the major features of their programs they are agreed. The more thoughtful and less belligerent elements in both camps express a lively desire that the whole industry be brought into a single organization. Undoubtedly the chief reason for this attitude is to be found in the strong emphasis which a majority of the leaders in both factions place upon the value of the largest measure of united strength for purposes of collective bargaining.

[5] It is difficult to see how the Board could refuse general educational and promotional assistance, whatever course it might pursue as to extension of credit. The Co-operative Marketing Act of 1926 (H. R. 7893, 69th Congress, 1st Session) was not repealed when the Agricultural Marketing Act of 1929 was passed. The Division of Co-operative Marketing, which the former act set up in the Bureau of Agricultural Economics, was designed to "render service to associations of producers of agricultural products" without distinction and without specifying that they should adhere to any national merger or overhead organization. This division of the Bureau has been transferred to the Federal Farm Board. But it would seem that its services should still be available on the broad terms laid down in the original act. How acceptable or helpful they would prove to be in the case of an association which elected to remain outside the one authorized national may be a matter of question.

The writers have already expressed their non-adherence to this view. In our opinion the really attainable and valuable fruits of collective bargaining can be fully secured by an organization of the size of either the National Livestock Marketing Association or the Farmers' Livestock Marketing Association. Further gains in this direction as the result of a merger would not be striking, and certain dangers flowing from such a consolidation should not be ignored. Some economy in operating costs could no doubt be secured but, on the other hand, the competition in service and the stimulating effects of rivalry between two organizations which have already attained a size sufficient for effective and economical operation would seem to have more than offsetting value.

Furthermore, the human beings who make up the membership even of co-operative organizations have sectional, individual, organizational, and doctrinal differences, and indeed dissimilarities in their psychological warp and woof which make them rather uncongenial materials to mix in a single working body. It seems much more practicable to strengthen the discipline and loyalty within the two somewhat divergent groups and profit by all the solidarity of action which can be obtained between the central directive bodies. After all is said and done, their basic aims are identical, and major policies will probably be found to evolve into a relationship of essential harmony even though they are based upon membership groups which could not live together in peace in the same organization.

Aside from personal dislikes and organizational rivalries, the essential difference between the National Livestock Marketing Association and the Farmers' Livestock Marketing Association is that the former

desires more centralization of control, a more ambitious program of overhead activities, and a more aggressive development of certain new lines of work such as direct movement of feeder stock; while the latter provides for more local authority, a less expensive and lighter running machinery, and a more conservative program of direct marketing.[6] Both systems embrace individual agencies which have been established for some years on the basis of service and costs satisfactory to their patrons. There seems no good reason why both should not be encouraged and assisted in taking the next step toward more effective organization in that way which the judgment and experience of each dictate as wisest and safest.

Perhaps one system will show a clear superiority over the other and displace it. Perhaps a few years of evolution will bring the two so close together that union will be easy and desirable. Perhaps they will serve different constituencies in ways quite different from each other but highly pleasing to their respective adherents. It is conceivable that two lines of experimentation during the next few years might be better than one. At all events, both groups of livestock producers should stand equal before the law.

*There is lack of a properly constituted underlying organization of producers.* The theory of co-operative

[6] One other difference may also be suggested. For reasons which are in part explained in Chapter VII it appears that several at least of the Farmers' Union terminal commission agencies are attached to and under the direction of actual producers to only a limited extent, tending to be quite largely controlled by the manager and a small group in the directorate whose tenure of office, however, does not depend upon any active process of selection on the part of the livestock producers as such. The Central Co-operative Association, on the other hand, by virtue of its emergence from a state shipping federation is identified with producer control as closely as, if not more closely than, the run of Producers houses.

association contemplates that producers who have a product to market shall form a producers' marketing organization which will serve as the marketing department for the commodity group. It is assumed that such producers have the most intimate and thorough knowledge of the conditions under which their product comes up to the distributive stage and of the type of marketing service best suited to their requirements. Obviously they will need skilled technicians to set up the desired marketing structure and to operate it efficiently. Such technically equipped employees, however, should be the servants of the producing organization rather than promotional executives looking to producers merely as the source whence a profitable patronage group may be recruited. These operating staffs should furnish the best information and advice which their training and intimate contact with marketing conditions enable them to supply. It is not their function, however, to assume the rôle of directors or dictate policies and arrangements to the producer group who in fact are the owners of the business.

It was a serious defect in the planning of the Committee of Fifteen that they failed to build forward from the shipping association movement which was already a well-developed expression of producer interest and activity in the field of livestock marketing. What was needed was the perfecting of this into a well-knit producer organization which would have established over a period of time a suitable system of selling agencies rendering marketing service responsive to the evolving needs of the producers and assured of a volume of business coming to it without solicitation cost because of the fact that the selling service was the creature of an already existing and seasoned

producer organization. Instead the Committee jumped over to the terminal market, where it set up a series of commission houses similar in character to the private commission firms already there. By a rather tenuous and not too adequate method of shipper representation it sought to attach these commission houses to the shipping business of the country.

After eight years had shown only qualified success under the plan of the Committee of Fifteen, the Farm Board, instead of perceiving and correcting the initial mistake, decided to push forward under the same pattern of organization in the territory where the National Producers organization had been most active. In the West and Southwest, on the other hand, it took advantage of pre-existing organizations of cattlemen and sheepmen, apparently without perceiving that such action implied any principle of co-operative organization. That is to say, the Western Cattle Marketing Association is definitely the marketing creation of the Western Cattlemen's Association. The Texas Livestock Marketing Association stands in virtually the same relation to the Texas and Southwestern Cattle Raisers' Association, and the Intermountain Livestock Marketing Association would hardly have been possible had it not been for the previous producer organizations of cattlemen and sheepmen in that territory.

These long-established protective and promotional associations of stockmen offered an excellent foundation upon which coextensive marketing organizations could be built. The old producer groups were concerned primarily with the adjustment of railroad rates, the registering and inspection of brands, the prevention and punishment of cattle stealing, and similar matters closely connected with the physical aspects of livestock production and handling. Today, however, they need

to be transformed into or supplemented by organizations of a broadly economic character. Such associations would facilitate collective action on the problems of the marketing of the product and of business adjustment and readjustment within the industry itself so as to harmonize its productive operations as fully as possible with the requirements of the market as revealed by the operations and investigations of the selling agency. The Farm Board and its national marketing organization should strengthen the producer associations in these territories into permanent participating and directional bodies and not rely upon the legal pressure of a contractual relation or the purely financial appeal of pecuniary returns to give these regional organizations continuing life and the assurance of vigorous growth. The same principle of organization of producer groups in accordance with convenient geographic boundaries should be carried into other territories, even where there is not a previous producer organization analogous to the California Cattlemen or the Texas and Southwestern Cattle Raisers.

We have already alluded to the fact that in the state of Ohio there has been for some time a persistent and wholesome growth of producer organization in the form of a state livestock marketing association. More recently a state marketing organization has been set up in Iowa, another in Illinois, and in one form or another they are being promoted by other state groups. These state associations should form the nucleus for a complete system of such state organizations of livestock producers co-operatively organized for the sale of their product. They should be the only constituent members of the national livestock marketing body, which should then proceed to reorganize all selling agencies

into a single unified merchandising system. This is the type of organization needed to assure the most efficient market distribution of the product, the reduction of marketing costs and wastes, and a true responsiveness of the selling mechanism to the real and evolving needs of the producer group. (See the chart on page 366.)

Citing a possibly hackneyed illustration, we will appeal to the analogy of the California Fruit Growers' Exchange. Here producers are formed into local packing-house associations for the purpose of processing their fruit in preparation for market distribution. Local producer groups own the facilities and have complete control over their operation and management. Marketing functions have been developed in these local packing-house organizations, supplemented by district exchanges and the central California Fruit Growers' Exchange. All are directly and closely controlled by the organized producer group in the citrus producing territory. For the actual service of market distribution, however, this federated producer organization has set up a system of merchandising agencies which it owns, controls, and directs in every particular, and which is placed at the service of all units of the producer organization. Any proposal that these selling offices should become the co-operative marketing agency and direct the selling function (rather than merely performing the routine of sales) would, we feel sure, appear hardly less ridiculous than distasteful to the California citrus producers.

*The Federal Farm Board's ruling on interlocking memberships is sound and salutary.* In some quarters there has been a tendency to tie up commodity marketing agencies with general farm organizations through the device of interlocking membership. This has been conspicuously true of the Equity, the Farmers' Union, and the Farm Clubs of Missouri. In the Farm

Bureau movement great diversity of practice has existed. In some sections no membership tie-up whatsoever has been attempted. In others the fostering of co-operative marketing agencies has been the Bureau's chief activity, the words "Farm Bureau" have been introduced into the titles of numerous associations, and participation has sometimes been limited to Farm Bureau members. In some cases, even, Farm Bureau dues have been collected by marketing associations as a "check off" from proceeds of sales.

The livestock marketing movement has been less involved in this system than many other commodity groups, but in Ohio all but a few counties have conducted their co-operative livestock shipping as a Farm Bureau enterprise. That is to say, only Farm Bureau members participated fully in its co-operative features. In some instances farmers who were not Farm Bureau members were permitted to ship through the association upon payment of a special shipping fee. In two counties, however, stock was not even accepted from anyone who was not a member of the Farm Bureau.

Early in its career the Federal Farm Board faced the question whether it was to accept this alliance of commodity marketing with general farm organization and decided in the negative. During the month of January, 1930 it incorporated in various loan agreements a clause stating that "membership in any general farm organization shall not be a condition of membership in any member unit of the co-operative marketing association." On February 1 it made a public statement of policy to the effect "that it was not necessary for any farmer to join any general farm organization in order to receive the benefits of the Agricultural Marketing Act, and that the Board would not recognize any commodity organization which made it a condition

that farmers must join such a general farm organization in order to receive their marketing services."

The significance of this action cannot easily be overestimated. The building of an efficient and economical market machinery for taking the cattle, sheep, and hogs of some tens or even hundreds of thousands of livestock producers and distributing them through a wide variety of markets so skilfully as to effect a price structure that is sound and equitable is an enormous task. It is rendered more difficult, indeed in the largest sense impossible, if marketing organization and administration are allowed to become entangled with extraneous even though closely related bodies. It inevitably complicates a farmers' organization set-up for business purposes with the ambitions and animosities—the "politics"—of the whole "farmers' organization movement." To have cut off this ancient source of weakness in co-operative marketing by a single blow dealt in the first few months of its existence is a master achievement of the Farm Board.

We conceive it to be a proper and desirable function of general farm organizations to foster and assist co-operative undertakings in their respective areas of activity. But this aid should be a spontaneous and unconditional gift—such aid as parents give to their children so that they may be launched on useful and successful careers. To expect marketing organizations to be a source of support to a farmers' general organization is to cramp their development and handicap them in showing satisfactory financial results to their patrons. The Board cut a Gordian knot which apparently never would have been untied by those within its grip.

*Some progress has been made in the livestock effort launched by the Farm Board; the road to complete success is clearly discernible.* In order to see just what

has been accomplished and what still remains to be done, let us make a very brief historical summary.

First came the livestock shipping association movement. All that this did was to establish local assembling units fairly well suited (so far as physical movement was concerned) to the day of exclusive horse and rail movement. But local shipping associations as such were inherently incapable of developing any real selling service, were inadequate even on the score of ordinary business management, and were seriously disorganized by the advent of the motor truck. (See pp. 37 and 225.)

From this shipping association approach, attempts were made to develop into a comprehensive marketing organization through the establishment of overhead service agencies, both state and national, these overhead agencies seeing the need for and aspiring to develop within their system such selling service as was not provided elsewhere. National development along this line never materialized. In some half dozen cases the work was undertaken on a state basis but with only two exceptions was abandoned or modified after a short time. This, however, does not prove that state marketing associations with suitable underlying organizations of producers have been discredited or should be discarded.

Second came the terminal marketing agency. Several of them had established themselves in successful operation prior to 1922, but it was the National Livestock Producers Association, fostered by the American Farm Bureau Federation through the Committee of Fifteen, that stimulated the greatest burst of organizational activity. The Producers movement also brought another new element in the form of an overhead co-ordinating agency. The failure of this movement to go forward at the rapid rate anticipated by its

promoters was due primarily to the fact that it was based on consolidation of commission agencies serving overlapping and competitive trade fields. The plan did not make the necessary provision for direct selling activities which were just on the eve of assuming great importance, nor did it take advantage of and link itself to the very considerable growth of shipping associations and their federations which had already taken place. The commission house movement took on an attitude of competition and rivalry with the shipping association movement instead of establishing complementary relations of mutual service. (See pp. 135, 191, and 265.)

Third came direct marketing agencies, springing from several sources and falling under several types. (a) Ohio county or district shipping associations ably pioneered the field of direct sale of a standardized product to Eastern slaughterers. This undertaking was eventually expanded on a state basis and, after a good deal of opposition, recognized as a part of the National Livestock Producers Association. (b) The latter organization, with much more conviction and enthusiasm, took up direct ranch-to-feeder marketing under its so-called "cattle and lamb pools." (c) In the west central Corn Belt, particularly Iowa, local shipping associations sold a large volume of hogs to nearby packers or to concentration stations for movement east. They aspired to consolidate this selling function into county or district units of adequate size for the most effective selling. But local pride, the opposition of the terminal agencies, and lack of vigor in their own organization prevented this evolution from proceeding far. (d) In the Far West cattle were sold from the range to Pacific Coast killers with considerable success.

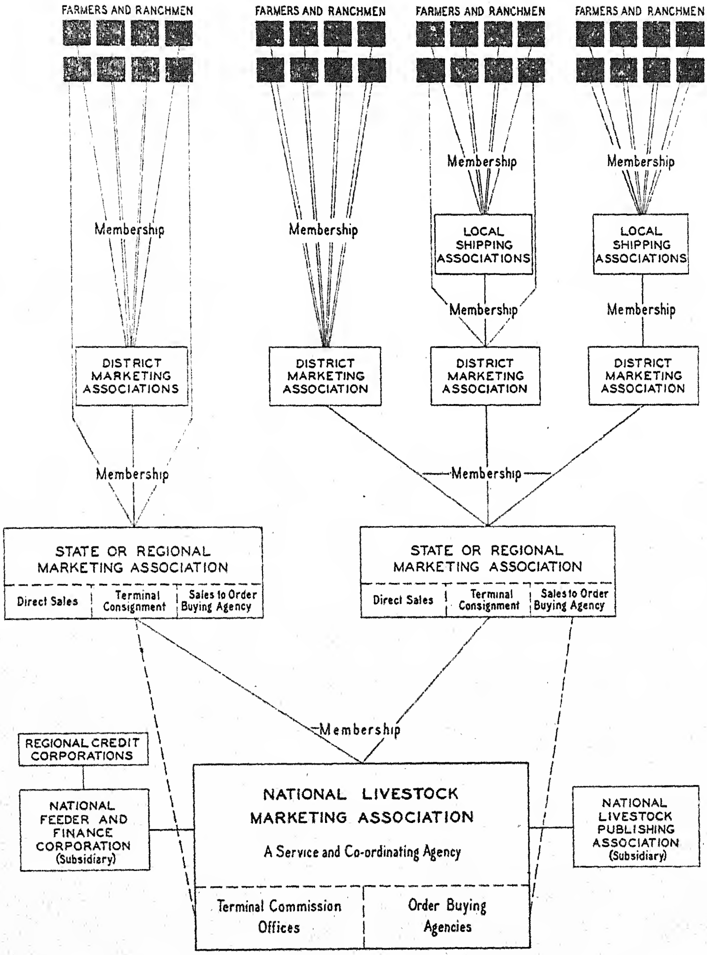
The fourth major phase of co-operative marketing development came with the launching of the Farm

Board plan to establish a national livestock marketing system. While this undertaking was designed to embrace, enlarge, and supersede the three earlier developments, those in charge enormously complicated their problem and seriously compromised results by allowing themselves to become entangled in a maze of vested interests and local antagonisms. It has become necessary therefore to stop short of the desired objective and to allow a period for consolidating such gains as have been made and perfecting plans for the next advance.

The fifth phase of co-operative livestock marketing should pave the way to full success by greatly simplifying the basic pattern of organization. This should embrace two main features: (1) comprehensive organization of the livestock producing industry for the purpose of marketing its product, and (2) a co-ordinated selling system set up to cover the whole range of livestock markets and to render an economical and flexible service to all parts of the industry.

The producers' organization should be open on equal terms to all livestock raisers and be based on the state or regional[7] unit. The state area seems well suited for the organization of operative units in the Middle West, whereas a larger than state region has much to recommend it in the range country. For administrative purposes the state or regional unit would naturally be subdivided into districts, sometimes running with county lines, though tending to be somewhat larger and having their limits determined by transportation considerations rather than by political boundaries. Individual memberships would in some cases run to a

[7] This term is used to apply to units embracing several states or parts of states. The term districts is used (see chart) to describe units smaller than the state or regional. Thus the whole system would embrace four types of associations: (1) local, (2) district, (3) state or regional, (4) national.


FARMERS AND RANCHMEN
FARMERS AND RANCHMEN
FARMERS AND RANCHMEN
FARMERS AND RANCHMEN
Membership
Membership
Membership
Membership
LOCAL SHIPPING ASSOCIATIONS
LOCAL SHIPPING ASSOCIATIONS
Membership
Membership
DISTRICT MARKETING ASSOCIATIONS
DISTRICT MARKETING ASSOCIATION
DISTRICT MARKETING ASSOCIATION
DISTRICT MARKETING ASSOCIATION
Membership
Membership
STATE OR REGIONAL MARKETING ASSOCIATION
Direct Sales
Terminal Consignment
Sales to Order Buying Agency
STATE OR REGIONAL MARKETING ASSOCIATION
Direct Sales
Terminal Consignment
Sales to Order Buying Agency
Membership
REGIONAL CREDIT CORPORATIONS
NATIONAL FEEDER AND FINANCE CORPORATION (Subsidiary)
NATIONAL LIVESTOCK MARKETING ASSOCIATION
A Service and Co-ordinating Agency
Terminal Commission Offices
Order Buying Agencies
NATIONAL LIVESTOCK PUBLISHING ASSOCIATION (Subsidiary)

local shipping association and in others direct to either the district or the state or regional organization. Where there are local associations, they might either become members of district associations or join the state or regional association direct. District associations would be members in a state or regional unit, and these in turn federated into a national overhead service organization.

The work of marketing the product of these organized livestock producers should be carried on through a single co-ordinated system of sales agencies. The national federation should itself maintain selling offices on the terminal markets together with the necessary order buying service. Direct selling as carried on in the various state or regional areas should be through offices under their own administration but with their activities co-ordinated through the national federation.

Such a system would correspond to the best practice worked out in other commodity fields, and to develop it for the service of livestock producers should not prove an insuperable task.

# APPENDICES

# APPENDIX A

## HOG PRICE DIFFERENTIALS BETWEEN PRINCIPAL TERMINAL MARKETS[1]

When we observe the general movement of hog prices over a considerable period, we find that their behavior is quite similar at all public markets. That is, the major trends, cycles, and seasonal variations in price between markets are much the same. Yet, a careful examination of the data shows that these price relationships are subject to considerable variation. A study of day-to-day and week-to-week price quotations at the different markets reveals striking dissimilarities. The purpose here is to examine carefully the yearly, seasonal (monthly), weekly, and daily behavior of hog prices with reference to the differentials that obtain between a few of the principal terminal markets in order to get a better picture of what is actually taking place.

The price quotations used are those supplied by the Division of Livestock, Meats, and Wool of the Bureau of Agricultural Economics of the United States Department of Agriculture. These quotations are gathered and prepared on a uniform basis at the different markets and are the most comparable hog price data available. Since the original quotations are given as a range from the lowest to the highest in the grade, it is necessary to convert the range to a single value in order to be able to subject them to statistical manipulation. The mid-point of the range is taken as being the most representative. The study is based upon the price differentials of medium weight (200–250 pounds, medium to choice) grade of hogs. The markets used are Chicago, Kansas City, Omaha, East St. Louis, and

[1] This appendix was prepared by Knute Bjorka.

South St. Paul. Analysis of yearly differentials embraces the period 1921–1929, while monthly, weekly, and daily differentials cover the period 1923–1929 inclusive.

By "price differential" is meant the difference in price per hundredweight of the same grade of hogs between two markets during a given period. The differentials given in this study have been obtained by designating one market as a base and measuring the difference in price at the other markets from it. Since the Chicago market is generally considered to be the one which the other markets follow, it has been used as a base. In order to get some measure of the validity of this belief, however, the study has been continued by taking the Kansas City market as a base and measuring differentials from it.

Price differentials between two markets remain the same from one period to another when the price at each point (1) remains unchanged, or (2) changes an equal amount in the same direction. Price differentials change (1) when the price at one market remains constant while the other changes, (2) when the price at both markets changes in the same direction but in different amounts, and (3) when the price at one market rises and the other falls. These different characteristics of price behavior at two given markets are all common.

## I. YEAR-TO-YEAR DIFFERENTIALS

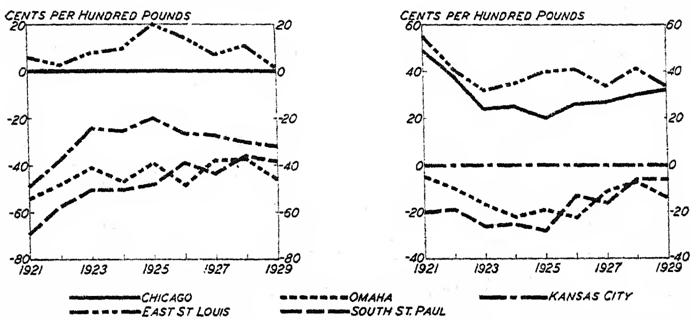
That the price relationship of hogs at the various markets tends to be fairly constant over a period of time, being governed by costs of moving the stock from one market to another (particularly from markets in the producing areas to markets in the consuming regions), is an idea quite generally held. The supposition is, therefore, that changes in the cost of transportation between markets, or changes in the relative costs of handling livestock at the different markets, are responsible for changing differentials. Since these

costs change infrequently, it is assumed that market differentials remain uniform over long periods. We are interested to see whether this assumption is borne out by the data.

The yearly average hog price differentials at Kansas City, Omaha, East St. Louis, and South St. Paul measured from Chicago for the period 1921–1929 inclusive are shown in Chart 1-A on this page. It will be noticed that the price of hogs at the other markets improved

1. Annual Average Hog Price Differentials at Selected Terminal Markets, 1921–1929

A. From Chicago Base B. From Kansas City Base




relatively to the price at Chicago from 1921 to 1925, although the change at the different markets was not uniform. The price at Kansas City was 49 cents per hundredweight below Chicago in 1921 and narrowed to only 20 cents below in 1925. The differential at Omaha measured from Chicago was reduced from 54 cents in 1921 to 39 cents in 1925; and the South St. Paul differential changed from 69 cents to 48 cents during this time. The price at East St. Louis rose from 6 cents above Chicago in 1921 to 20 cents above in 1925.

The movement of differentials from 1925 to 1929 inclusive showed greater variation. Kansas City and East St. Louis had become relatively less favorable during the period. The Kansas City price of 20 cents

below Chicago in 1925 changed to 32 cents below in 1929. At East St. Louis the price of 20 cents above Chicago in 1925 was reduced to 2 cents above in 1929. The differential at Omaha, although varying from year to year, remained about the same during the period. In fact, the annual differential at Omaha has been fairly constant since 1923. The price at South St. Paul, on the other hand, has improved since 1925, as well as from 1921 to 1925. This improvement distinguishes South St. Paul from all the other markets used in the study.

The differentials at the other markets with reference to Kansas City for the period 1921–1929 inclusive are shown in Chart 1-B, page 371. The differential at Chicago measured from Kansas City was of course the same as at Kansas City measured from Chicago, except that the direction of the line was reversed. Omaha was 5 cents below Kansas City in 1921 and the differential steadily widened to 22 cents below in 1924. In 1925 it averaged 19 cents, and in 1926 it was again 22 cents below. The differential narrowed in 1927 and 1928 to 7 cents below in the latter year. For 1929 the differential at Omaha increased to 14 cents below Kansas City. The price at East St. Louis was 55 cents above Kansas City in 1921 and decreased to 32 cents in 1923. This differential has been irregular since, although it has shown a slight net improvement over Kansas City. At South St. Paul the differential of 20 cents below Kansas City in 1921 increased, though irregularly, to 28 cents in 1925. Since 1925 it has narrowed rather consistently to 6 cents below Kansas City for 1928 and 1929.

The data on yearly differentials as a whole offer little to substantiate the idea that Chicago sets the price and that other markets follow. Neither do they indicate that the five principal markets move together, establishing a consistent system of prices which could be counted on by minor markets in their several vicinities.

As to Chicago's position relative to other markets, it will be noted that the differentials of Kansas City, South St. Paul, and Omaha below Chicago rather steadily narrowed, and the differential of East St. Louis above Chicago widened during the period 1921–1925 inclusive. Stated from the opposite point of view, this would mean that Chicago prices became relatively less favorable during this five-year period. From 1925 to 1929 the East St. Louis differential above Chicago declined, that of Kansas City below Chicago increased slightly, that of Omaha averaged about the same, and that of South St. Paul below Chicago decreased about 10 cents. This would seem to indicate a partial recovery of Chicago's relative position.

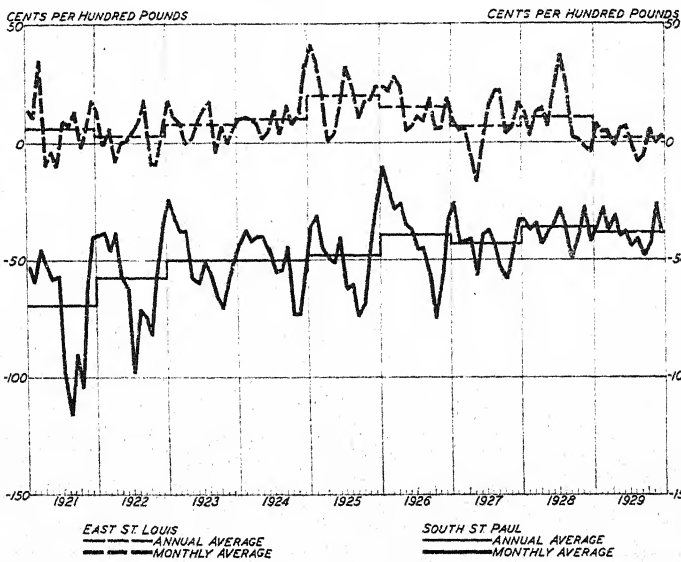
While Chicago was making this decline and partial recovery, the differential position of South St. Paul as compared with the other four markets, as shown either by the chart based on Chicago or by the chart based on Kansas City, was quite distinctly improving. The outstanding conclusion, however, appears to be that, even when the erratic day-to-day fluctuations have been largely ironed out through the process of deriving a yearly average figure, the relationships between the several markets still show a high degree of variability and do not indicate that the price bond between them has been established on a permanent basis.

## II. SEASONALITY OF DIFFERENTIALS

In the preceding discussion of yearly average price differentials there was no intention of implying that such yearly averages were maintained with any degree of consistency throughout the year. Any one at all familiar with conditions in livestock markets knows that this is not the case, but that there are rather erratic and often quite extreme changes of a very short-time character and also somewhat typical variations over periods of weeks or months. Such seasonal price changes appear to be based primarily on changes

in marketing costs, such as shrinkage in weight and loss through death or crippling in transit, which tend to increase during periods of hot weather and to be reduced when the temperature moderates. The shrinkage and loss affect markets located in the producing areas and those located at greater distances differently.

2. Monthly Average Hog Price Differentials at East St. Louis and South St. Paul Measured from Chicago, 1921–1929

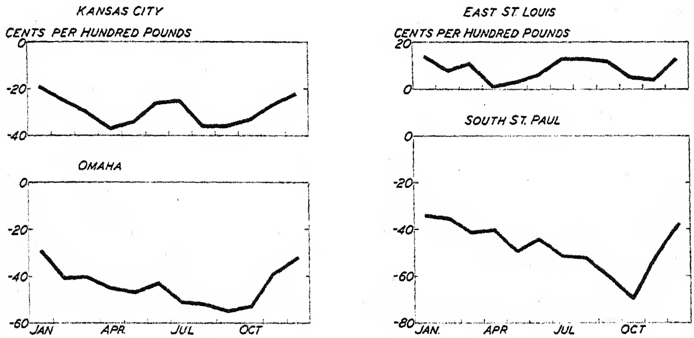



The monthly average hog price differentials at East St. Louis and South St. Paul for the period 1921–1929 measured from Chicago are shown in Chart 2 on this page.[2] A mere glance suggests that East St. Louis is characteristically a less advantageous market in early

[2] To economize space we have presented this material graphically for only two of the markets outside Chicago. Data for the other markets were plotted in the course of the study, and are essentially similar to those for East St. Louis and South St. Paul.

summer and a more advantageous one in midwinter, and that South St. Paul shows similar seasonal differences except that both high and low points fall in a later month. From like data for all five markets for the nine-year period 1921–1929, we have obtained representative seasonal price differential curves for the four other markets with Chicago as a base.[3] These are shown in Chart 3 below.

3. Representative Seasonal Hog Price Differentials at Specified Terminal Markets Measured from Chicago, 1921–1929




The seasonality of behavior of hog price differentials between two markets showed some variation from year to year, but the derived curve tends to be fairly typical of the behavior for individual years. The differential curves for the individual years are more regular in their behavior for the first four and the last three months of the year than for the months intervening.

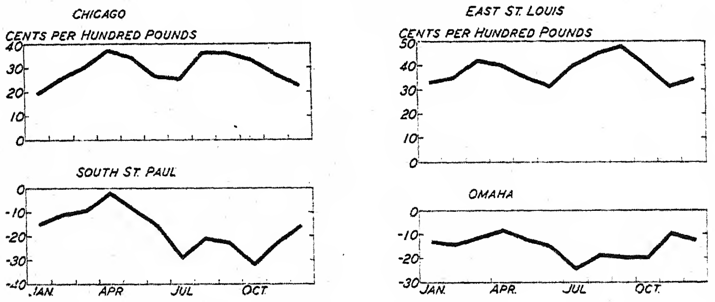
Of these four seasonal curves, those for East St. Louis and Kansas City respectively show the least marked seasonal movement, having an extreme range of 13 cents in the case of St. Louis, with low points

[3] The representative seasonal differential curve between a given market and the base market is obtained by taking the mean of the middle three values for each month when values are arrayed in order of magnitude.

in April and November; and of 18 cents for Kansas City, with low points in April and August–September. The curves for Omaha and South St. Paul, on the other hand, show a fairly steady down trend, amounting to 26 cents from January to September in the former case and to 35 cents from January to October in the latter.

Seasonal curves for the other markets with Kansas City as a base are shown in Chart 4 below. From this point of view, Chicago, Omaha, and East St. Louis

4. Representative Seasonal Hog Price Differentials at Specified Terminal Markets Measured from Kansas City, 1921–1929




all have two highs, in April and August–September, April and November, and March and September respectively. As compared with Kansas City, South St. Paul has a seasonal high in April and low in October, with a range of 30 cents between them. This compares with a range of 18 cents for Chicago, 16 cents for Omaha, and 17 cents for East St. Louis.

## III. WEEK-TO-WEEK DIFFERENTIALS

The notion is not uncommon that, although hog price differentials between two markets vary rather sharply from day to day, these variations tend to be eliminated in weekly averages. An analysis has been made of weekly differentials in order to test the validity

of this contention. The period 1923–1929 inclusive has been used for this purpose.

Chart 5 on page 378 gives the weekly average hog price differentials at Kansas City, Omaha, East St. Louis, and South St. Paul measured from Chicago for the years 1923–1929 inclusive. Since the Chicago price is represented by a horizontal base, if the price at the other markets varied uniformly with Chicago, the price differential curves for these markets would parallel Chicago, allowance being made for changes in normal differentials, which would be expected to occur during the year due to seasonal changes in marketing

I. AVERAGE CHANGE IN WEEK-TO-WEEK HOG PRICE DIFFERENTIALS AT SPECIFIED TERMINAL MARKETS, MEASURED FROM CHICAGO AND FROM KANSAS CITY, 1923–1929

(In cents per hundredweight)

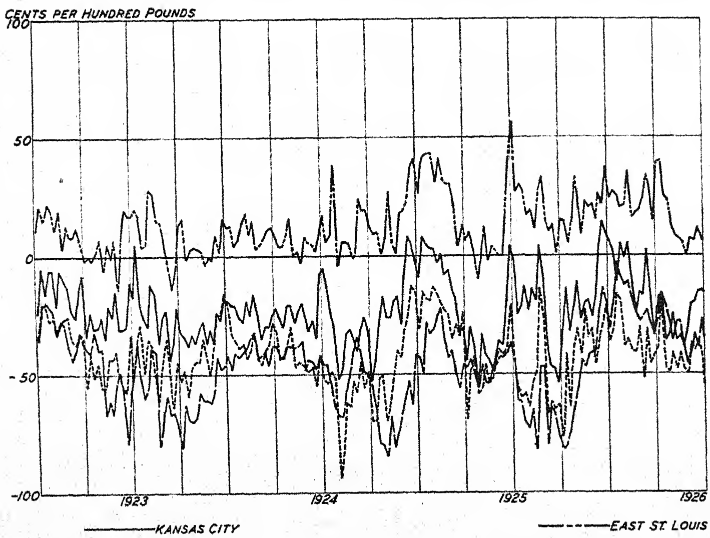
| Market | 1923 | 1924 | 1925 | 1926 | 1927 | 1928 | 1929 | 7-Year Average |
|---|---|---|---|---|---|---|---|---|
| From Chicago Base: | | | | | | | | |
| Kansas City | 9.3 | 7.4 | 10.0 | 9.1 | 7.4 | 8.1 | 8.4 | 8.5 |
| Omaha | 9.6 | 7.3 | 10.9 | 11.8 | 7.2 | 8.3 | 9.1 | 9.2 |
| East St. Louis | 7.5 | 7.2 | 9.3 | 7.3 | 10.4 | 8.4 | 5.6 | 8.2 |
| South St. Paul | 8.1 | 5.6 | 7.7 | 8.6 | 7.2 | 7.1 | 9.1 | 7.6 |
| From Kansas City Base: | | | | | | | | |
| Chicago | 9.3 | 7.4 | 10.0 | 9.1 | 7.4 | 8.1 | 8.4 | 8.5 |
| Omaha | 7.7 | 7.0 | 9.0 | 11.7 | 7.1 | 7.5 | 6.7 | 8.1 |
| East St. Louis | 7.9 | 10.0 | 7.4 | 8.3 | 10.4 | 7.7 | 7.3 | 8.4 |
| South St. Paul | 8.0 | 8.6 | 8.8 | 10.5 | 10.5 | 8.5 | 9.5 | 9.2 |

costs. This, however, is not the case. In fact, for the same differential to prevail for even two successive weeks between the base market and one of the other terminal markets is not very common. Between Kansas City and Chicago the same price differential occurred two successive weeks 16 times during the seven-year period (or on an average slightly more than twice a year); between Omaha and Chicago 14 times; between East St. Louis and Chicago 14 times; and between South St. Paul and Chicago 20 times.

The character of weekly differentials at the other markets when measured from Kansas City instead of Chicago is not very different. Between Omaha and Kansas City the same price differential continued for

two successive weeks 19 times in seven years, between East St. Louis and Kansas City 11 times, and between South St. Paul and Kansas City 9 times. At no time during the period did the same weekly price differential remain for more than two consecutive weeks between any of the terminal markets and the base market.

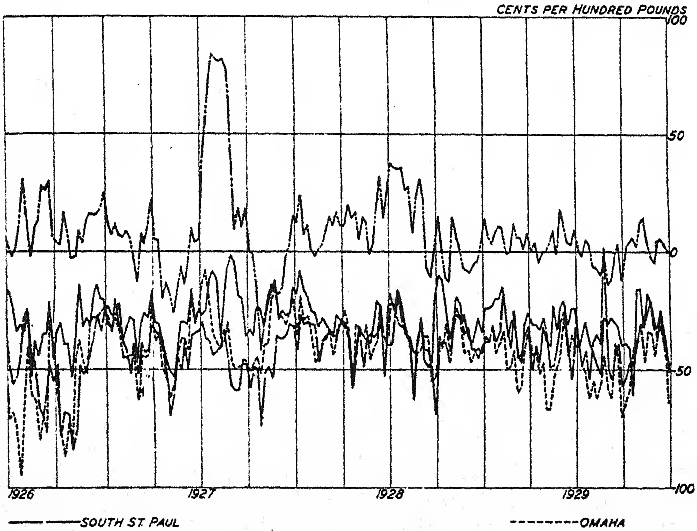
5. WEEKLY AVERAGE HOG PRICE DIFFERENTIALS AT SPECIFIED




The average change in hog price differentials varied from week to week, as shown in Table I on page 377. The average week-to-week change by years between Kansas City and Chicago ranged from 7.4 cents to 10 cents, with 8.5 cents as an average for the seven years; between Omaha and Chicago from 7.2 cents to 11.8 cents, with 9.2 cents as an average; between East St. Louis and Chicago from 5.6 cents to 10.4 cents, with 8.2 cents as an average; and between South St. Paul and Chicago from 5.6 cents to 9.1 cents, with 7.6 cents as an average.

Measured from Kansas City the average changes were not very different. It is interesting to note, however, that the average week-to-week change in differentials for all seven years was greater between Omaha and Chicago than between Omaha and Kansas City. It was less between East St. Louis and Chicago than between East St. Louis and Kansas City for 1923, 1924,

TERMINAL MARKETS MEASURED FROM CHICAGO, 1923–1929




1926, and 1929; but the reverse was true for 1925 and 1928. For 1927 the average change was the same between East St. Louis and the two base markets. It was less every year between South St. Paul and Chicago than between South St. Paul and Kansas City, except in 1923, when the reverse was true.

The frequency distribution of week-to-week changes in hog price differentials at terminal markets, for the period 1923–1929 inclusive, measured from Chicago and from Kansas City, is shown in Table II on page 380. Grouping changes into 5-cent classes, we note

that the 0–5 cent class had the greatest frequency of change, the 5–10 cent class the next greatest, and the other classes less frequent changes as the amount of change increased. A change of 15 cents or more occurred 48 times between South St. Paul and Chicago, and 76 times between Omaha and Chicago, or 13 and 21 per cent respectively.

We were also interested in obtaining a measure of the degree of variability of price differentials from the average. The mean weekly differential and the

II. FREQUENCY DISTRIBUTION OF WEEK-TO-WEEK CHANGES IN HOG PRICE DIFFERENTIALS AT SPECIFIED TERMINAL MARKETS, MEASURED FROM CHICAGO AND FROM KANSAS CITY FOR THE SEVEN-YEAR PERIOD 1923–1929

(In cents per hundredweight)

| Week-to-Week Change | From Chicago Base | | | | From Kansas City Base | | | |
|---|---|---|---|---|---|---|---|---|
| | Kansas City | Omaha | East St. Louis | South St. Paul | Chicago | Omaha | East St. Louis | South St. Paul |
| Less than 5... | 130 | 117 | 141 | 139 | 130 | 131 | 123 | 114 |
| 5 to 10....... | 103 | 100 | 102 | 117 | 103 | 115 | 122 | 103 |
| 10 to 15....... | 59 | 71 | 70 | 60 | 59 | 64 | 62 | 77 |
| 15 to 20....... | 41 | 41 | 29 | 30 | 41 | 31 | 26 | 41 |
| 20 to 25....... | 20 | 21 | 11 | 9 | 20 | 13 | 22 | 15 |
| 25 to 30....... | 9 | 6 | 7 | 2 | 9 | 4 | 6 | 9 |
| 30 to 35....... | 1 | 1 | 2 | 3 | 1 | 5 | 1 | 3 |
| 35 and over... | 1 | 7 | 2 | 4 | 1 | 1 | 2 | 2 |

average deviation from the mean for each of the markets used in this study, measured from Chicago and from Kansas City for the years 1923–1929 inclusive, are given in Table III on page 381. The dispersion of price differential was affected by both week-to-week and seasonal changes, since the variability was measured from the mean differential for the year. The average deviation was not constant from year to year. Measured from Chicago, it ranged from 8.3 cents to 14.6 cents for Kansas City, from 8.5 cents to 15 cents for Omaha, from 5.3 cents to 21.7 cents for East St. Louis, and from 6.3 cents to 15.2 cents for South St. Paul. The dispersion of differentials measured from the Kansas City base showed an average of from 6.2

cents to 12.2 cents for Omaha, 6.5 cents to 18.6 cents for East St. Louis, and 8.3 cents to 13.9 cents for South St. Paul.

A comparison of the variability of differentials measured first from Chicago and then from Kansas City should throw some light on the question of how

III. Mean Weekly Hog Price Differentials and Average Deviation from Mean for Specified Terminal Markets, Measured from Chicago and from Kansas City, 1923–1929

A. From Chicago Base

| Year | Mean Weekly Differentials | | | | Average Deviation | | | |
|---|---|---|---|---|---|---|---|---|
| | Kansas City | Omaha | East St. Louis | South St. Paul | Kansas City | Omaha | East St. Louis | South St. Paul |
| 1923 | — 24 | — 41 | 8 | — 50 | 8.6 | 9.9 | 7.9 | 14.0 |
| 1924 | — 25 | — 47 | 10 | — 50 | 8.5 | 11.1 | 7.4 | 11.0 |
| 1925 | — 20 | — 39 | 20 | — 48 | 14.6 | 14.2 | 12.1 | 13.0 |
| 1926 | — 26 | — 48 | 15 | — 39 | 11.5 | 15.0 | 9.3 | 15.2 |
| 1927 | — 27 | — 38 | 7 | — 43 | 8.3 | 10.0 | 21.7 | 9.0 |
| 1928 | — 30 | — 37 | 11 | — 36 | 8.5 | 8.5 | 10.9 | 6.3 |
| 1929 | — 32 | — 46 | 2 | — 38 | 8.5 | 8.8 | 5.3 | 7.8 |

B. From Kansas City Base

| Year | Mean Weekly Differentials | | | | Average Deviation | | | |
|---|---|---|---|---|---|---|---|---|
| | Chicago | Omaha | East St. Louis | South St. Paul | Chicago | Omaha | East St. Louis | South St. Paul |
| 1923 | 24 | — 17 | 32 | — 26 | 8.6 | 7.4 | 6.5 | 9.6 |
| 1924 | 25 | — 22 | 35 | — 25 | 8.5 | 8.3 | 8.8 | 13.9 |
| 1925 | 20 | — 19 | 40 | — 28 | 14.6 | 10.2 | 7.0 | 13.4 |
| 1926 | 26 | — 22 | 41 | — 13 | 11.5 | 12.2 | 10.8 | 10.9 |
| 1927 | 27 | — 11 | 34 | — 16 | 8.3 | 8.9 | 18.6 | 11.4 |
| 1928 | 30 | — 7 | 41 | — 6 | 8.5 | 6.9 | 13.3 | 8.3 |
| 1929 | 32 | — 14 | 34 | — 6 | 8.5 | 6.2 | 6.9 | 12.1 |

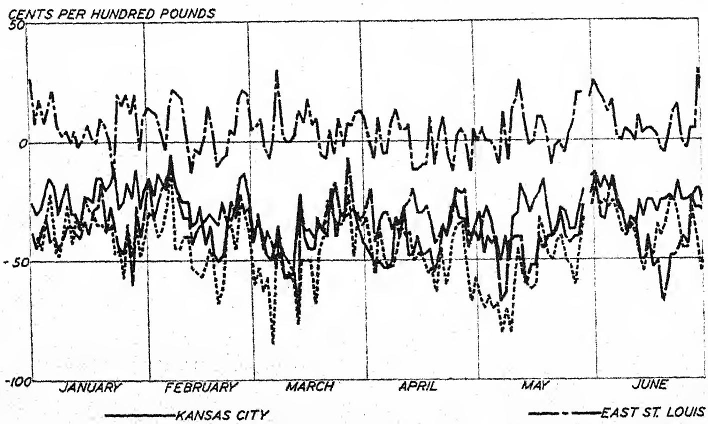
important Chicago is in directing price at the other markets. If prices follow Chicago closely, the variation in week-to-week differentials during the year will be small, being due to seasonal changes. Working from the average deviations given in Table III, however, we find that Omaha weekly differentials varied less from the average differential when measured from Kansas City than when measured from Chicago. Omaha and Kansas City prices moved together more closely than either of them moved with Chicago. This was true for

all seven years. The differential at East St. Louis followed Chicago more closely than Kansas City for 1924, 1926, 1928, and 1929, but the reverse was true for 1923, 1925, and 1927. The average deviations were less for South St. Paul when measured from Chicago for 1924, 1925, 1927, 1928, and 1929, but the reverse was true for 1923 and 1926.

## IV. DAY-TO-DAY DIFFERENTIALS

Differences in the general price level of one market as compared with another which we have presented as

6. Daily Hog Price Differentials at Specified

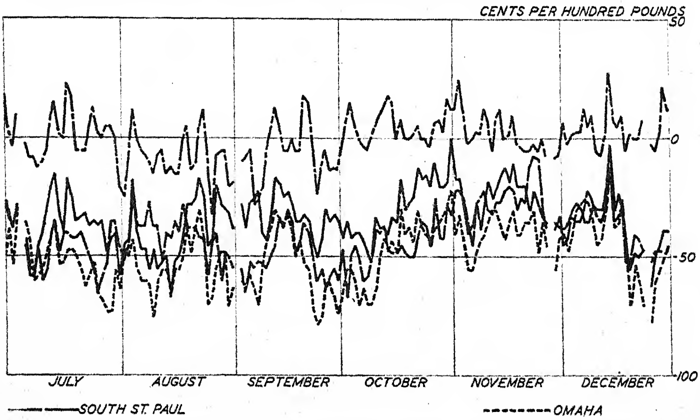



annual average differentials, the minor fluctuations in these differentials discussed as seasonal phenomena, and the greater variation shown by week-to-week change in differentials do not complete the story. Short-time influences such as the volume of receipts, the placing of extraordinarily heavy orders, or the failure of expected orders to materialize may cause the prices at a given market on a particular day to move in a way which has little or no relation to what is happening at other markets.

Local and temporary influences of this sort may be regarded as maladjustments of the market machinery.

While they tend to set forces to work toward restoring equilibrium between the locality affected and other markets, such an adjustment takes time. The flow of stock to market is not freely re-directed to meet the new situation; and delay, although perhaps less marked, is experienced in shifting the demand for the product. During the process of correcting one price discrepancy between markets, other disturbances are likely to occur, and forces to correct these are set in motion. Price relationships have a tendency to gravitate toward a certain point; but they are continually being buffeted

TERMINAL MARKETS MEASURED FROM CHICAGO, 1929




about by various disturbing forces. In order to show the behavior of short-time price relationships at the various principal terminal markets, we shall undertake a detailed study of day-to-day hog price differentials at these points.[4]

*Frequency of change.* Much more often than not the hog price differential between any two primary mar-

[4] The price of hogs may change during the trading period of the day at public markets, but no attempt is made to show such change. The price used represents the mid-point of the range of quotable prices on medium weight (200–250 pounds, medium to choice) grade of hogs for the day.

kets changes from one day to the next. A general idea of this movement may be secured by examining Chart 6 on page 382, which gives the daily price differentials for the year 1929 at Kansas City, Omaha, East

IV. Number of Consecutive Days Same Hog Price Differentials Prevailed at Specified Terminal Markets when Measured from Chicago and from Kansas City, 1923–1929

| Market and Year | From Chicago Base: | | | | | | From Kansas City Base: | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1 | 2 | 3 | 4 | 5 | 6 | 1 | 2 | 3 | 4 | 5 |
| Chicago *and* Kansas City:[a] | | | | | | | | | | | |
| 1923 | 221 | 31 | 8 | — | — | — | 221 | 31 | 8 | — | — |
| 1924 | 222 | 35 | 5 | — | — | — | 222 | 35 | 5 | — | — |
| 1925 | 229 | 33 | 4 | — | — | — | 229 | 33 | 4 | — | — |
| 1926 | 253 | 21 | 2 | 1 | — | — | 253 | 21 | 2 | 1 | — |
| 1927 | 234 | 28 | 4 | 1 | — | — | 234 | 28 | 4 | 1 | — |
| 1928 | 246 | 23 | 5 | — | — | — | 246 | 23 | 5 | — | — |
| 1929 | 263 | 21 | 1 | — | — | — | 263 | 21 | 1 | — | — |
| Omaha: | | | | | | | | | | | |
| 1923 | 235 | 27 | 3 | 2 | — | — | 242 | 28 | 3 | — | — |
| 1924 | 200 | 46 | 5 | — | — | — | 215 | 35 | 6 | 1 | — |
| 1925 | 245 | 26 | 3 | — | — | — | 249 | 21 | 3 | 2 | — |
| 1926 | 259 | 21 | 2 | — | — | — | 267 | 16 | 1 | — | 1 |
| 1927 | 262 | 22 | — | — | — | — | 250 | 26 | 2 | — | — |
| 1928 | 270 | 17 | 1 | — | — | — | 239 | 30 | 3 | — | — |
| 1929 | 268 | 18 | 1 | — | — | — | 221 | 36 | 5 | — | — |
| East St. Louis: | | | | | | | | | | | |
| 1923 | 245 | 26 | 3 | — | — | — | 218 | 34 | 3 | 3 | — |
| 1924 | 253 | 24 | 2 | — | — | — | 235 | 33 | 1 | 1 | — |
| 1925 | 245 | 31 | — | — | — | — | 243 | 31 | 1 | — | — |
| 1926 | 245 | 22 | 6 | — | — | — | 257 | 25 | — | — | — |
| 1927 | 267 | 15 | 1 | — | 1 | — | 248 | 26 | — | 2 | — |
| 1928 | 247 | 30 | — | — | — | — | 247 | 24 | 3 | 1 | — |
| 1929 | 266 | 21 | — | — | — | — | 242 | 31 | — | 1 | — |
| South St. Paul: | | | | | | | | | | | |
| 1923 | 246 | 22 | 4 | 1 | — | — | 245 | 25 | 4 | — | — |
| 1924 | 228 | 33 | 3 | 1 | — | — | 238 | 32 | 2 | — | — |
| 1925 | 248 | 26 | 2 | — | — | — | 256 | 21 | 3 | — | — |
| 1926 | 228 | 32 | 5 | — | — | — | 245 | 29 | 1 | — | — |
| 1927 | 223 | 33 | 4 | — | 1 | — | 224 | 36 | 4 | — | — |
| 1928 | 247 | 26 | 1 | 1 | — | — | 232 | 23 | 7 | 2 | — |
| 1929 | 256 | 22 | — | — | — | 1 | 236 | 29 | 3 | 1 | — |

[a] Chicago measured from Kansas City and Kansas City measured from Chicago.

St. Louis, and South St. Paul measured from Chicago. The differential between Chicago and these markets for other years behaved in general very similarly.

The number of consecutive days for which the same price differential prevailed between the other markets and Chicago, and between the other markets and Kan-

sas City for the period 1923–1929 inclusive is shown in Table IV on page 384. The differential at Kansas City measured from Chicago changed on the average 238 times, or 78 per cent of the market days. The same differential prevailed for two days in succession on the average 27 times, or 18 per cent of the market days; and three days in succession 4 times, or 4 per cent of the time. Only twice during the seven years did the same differential prevail four days in succession, and at no time during the period did the same hog price differential maintain for more than four consecutive days.

In individual years the behavior of daily hog price differentials at Kansas City measured from Chicago varied considerably from the average of the period. The differential changed from one day to the next 221 times in 1923 and 263 times in 1929, or 72 per cent and 85 per cent of the market days respectively. The differential was the same for two days in succession 21 times in each of the years 1926 and 1929, and 35 times in 1924, or 14 per cent and 23 per cent of the market days respectively. The same differential remained more than two days in succession only 1 per cent of the market days in 1929, and 8 per cent in 1923.

The price differentials at Omaha, East St. Louis, and South St. Paul behaved very similarly to those at Kansas City when measured from Chicago. On the average the differential at Omaha changed from one day to the next 248 times per year, at East St. Louis 253 times, and at South St. Paul 239 times, or 81, 82, and 78 per cent of the market days respectively. Omaha showed the greatest variability from year to year during the period. During 1924 the differential changed from one day to the next 200 times, or 65 per cent of the days; while in 1928 it changed 270 times, or 88 per cent of the time. On the other hand, the same differential prevailed two consecutive days 46 times, or 30 per cent of the market days in 1924; and 17 times, or 11 per cent of the days in 1928. The variability at

East St. Louis was very similar to that at Omaha, and at South St. Paul very much like that at Kansas City. At South St. Paul, however, at one time the same differential below Chicago was maintained for

V. Number of Days Hog Price Differentials Moved in the Same Direction at Specified Terminal Markets when Measured from Chicago and from Kansas City, 1923–1929

| Market and Year | From Chicago Base: | | | | | | | From Kansas City Base: | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 10 |
| Chicago *and* Kansas City:[a] | | | | | | | | | | | | | | | |
| 1923..... | 134 | 53 | 14 | 5 | 1 | — | — | 134 | 53 | 14 | 5 | 1 | — | — | — |
| 1924..... | 123 | 49 | 14 | 8 | — | 2 | — | 123 | 49 | 14 | 8 | — | 2 | — | — |
| 1925..... | 128 | 47 | 15 | 6 | 2 | 1 | — | 128 | 47 | 15 | 6 | 2 | 1 | — | — |
| 1926..... | 91 | 45 | 22 | 12 | 2 | — | — | 91 | 45 | 22 | 12 | 2 | — | — | — |
| 1927..... | 118 | 47 | 20 | 7 | 1 | — | — | 118 | 47 | 20 | 7 | 1 | — | — | — |
| 1928..... | 119 | 53 | 22 | 4 | — | — | — | 119 | 53 | 22 | 4 | — | — | — | — |
| 1929..... | 129 | 50 | 19 | 3 | 2 | — | — | 129 | 50 | 19 | 3 | 2 | — | — | — |
| Omaha: | | | | | | | | | | | | | | | |
| 1923..... | 128 | 38 | 18 | 4 | 5 | — | 1 | 140 | 45 | 19 | 5 | — | — | — | — |
| 1924..... | 123 | 34 | 19 | 11 | 3 | — | — | 121 | 53 | 18 | 4 | 2 | — | — | — |
| 1925..... | 84 | 51 | 15 | 8 | 5 | 3 | — | 115 | 46 | 22 | 5 | 3 | — | — | — |
| 1926..... | 115 | 37 | 22 | 8 | 4 | — | — | 116 | 46 | 19 | 8 | 2 | — | — | — |
| 1927..... | 101 | 49 | 26 | 6 | 1 | — | — | 112 | 51 | 26 | 4 | — | — | — | — |
| 1928..... | 98 | 50 | 26 | 4 | 3 | — | — | 114 | 47 | 18 | 6 | 2 | 2 | — | — |
| 1929..... | 117 | 45 | 22 | 6 | 2 | — | — | 128 | 53 | 20 | 1 | 2 | — | — | — |
| East St. Louis: | | | | | | | | | | | | | | | |
| 1923..... | 118 | 51 | 14 | 7 | 2 | 1 | — | 130 | 43 | 20 | 2 | 2 | 1 | 1 | — |
| 1924..... | 126 | 47 | 19 | 5 | 2 | — | — | 116 | 39 | 23 | 7 | — | — | 1 | 1 |
| 1925..... | 100 | 58 | 22 | 5 | 1 | — | — | 131 | 47 | 19 | 5 | — | 1 | — | — |
| 1926..... | 121 | 61 | 12 | 7 | — | — | — | 122 | 55 | 12 | 6 | 3 | — | — | — |
| 1927..... | 103 | 44 | 27 | 7 | 1 | — | — | 96 | 53 | 25 | 6 | — | 1 | — | — |
| 1928..... | 124 | 44 | 15 | 10 | 2 | — | — | 123 | 46 | 19 | 5 | 2 | 1 | — | — |
| 1929..... | 115 | 58 | 12 | 5 | 3 | 1 | — | 104 | 49 | 24 | 5 | 3 | — | — | — |
| South St. Paul: | | | | | | | | | | | | | | | |
| 1923..... | 115 | 51 | 16 | 9 | 1 | — | — | 126 | 50 | 13 | 7 | 3 | — | — | — |
| 1924..... | 125 | 43 | 21 | 7 | 1 | — | — | 121 | 46 | 21 | 4 | 2 | 1 | — | — |
| 1925..... | 124 | 52 | 13 | 7 | 1 | 1 | — | 123 | 49 | 18 | 8 | — | — | — | — |
| 1926..... | 144 | 47 | 17 | 2 | 2 | — | — | 152 | 41 | 18 | 2 | 2 | — | — | — |
| 1927..... | 139 | 54 | 13 | 5 | — | — | — | 152 | 42 | 17 | 5 | — | — | — | — |
| 1928..... | 127 | 46 | 22 | 4 | 1 | — | — | 119 | 49 | 16 | 9 | — | 1 | — | — |
| 1929..... | 120 | 48 | 19 | 7 | 1 | — | — | 137 | 56 | 12 | 3 | 2 | — | — | — |

[a] Chicago measured from Kansas City and Kansas City measured from Chicago.

five consecutive days, and at another time for six consecutive days.

When measuring differentials of the other markets from Kansas City, we found a little less tendency to change from one day to the next than when measuring from Chicago. Variations were found for individual

years, but even then the behavior was very uniform. On the average differentials changed from one day to the next at all markets 78 per cent of the time during the seven-year period. The same ones prevailed two successive days 18 per cent of the time at Chicago, Omaha, and South St. Paul, and 19 per cent at East St. Louis. The differentials for the other 3 or 4 per cent of the time were not so regularly distributed, but were limited to periods of three and four consecutive days, except at Omaha, where the differential at one time remained the same for five successive days.

We have observed that it was characteristic for differentials between terminal markets to change from day to day. It is of interest to see what the nature of this change was. Over how long a period did differentials change in the same direction before they reversed themselves? Table V on page 386 shows what happened at Kansas City, Omaha, East St. Louis, and South St. Paul with differentials measured from Chicago, and at Chicago, Omaha, East St. Louis, and South St. Paul measured from Kansas City for the period 1923–1929 inclusive. On the average, Kansas City differentials, measured from Chicago, moved in the same direction one day and changed direction on the next 120 times, or 39 per cent of all market days; two consecutive days 49 times, or 32 per cent of the time; and three days 18 times, or 18 per cent of the time. The frequency decreased with four, five, six, and seven consecutive days respectively. In fact, it was uncommon for differentials to move in the same direction for five or six successive days, and at no time did they move in the same direction more than six days in succession at Kansas City.

The movement at other markets was very similar. At Omaha the differential changed direction on the average 109 times per year, or 36 per cent of the time; and at East St. Louis 115 times, or 36 per cent of the time. Differentials changed direction from one day

to the next most frequently at South St. Paul—on the average 128 times per year, or 42 per cent of the time. The behavior for individual years showed some variation at all markets, but a little more at Kansas City and Omaha than at South St. Paul and East St. Louis. At Omaha the differential changed in the same direction seven days in succession once during the period.

When differentials were measured from Kansas City they behaved very much the same as when measured from Chicago. They changed in the same direction at East St. Louis seven consecutive days twice, and ten consecutive days once during the period. With these exceptions they did not change in the same direction more than six successive days at any market.

The question arises as to why differentials between markets have this seesaw behavior, typically moving one, two, or three days in one direction, and then reversing. Presumably there is a normal differential between any two markets at a given time of the year. It is difficult to determine specifically what this is. We have observed from the frequency distribution of the amount of differential that it fluctuates within limits. If the differential between two markets is out of line, how long does it take for it to swing back into line? This question presupposes a normal differential, and this norm is an elusive thing, the amount of which cannot be determined with precision. Instead of attempting to find the precise normal differential, which would change during the year, we have used a range differential measured above and below an average differential for the month. This range necessarily had to be arbitrary. The average we used was the monthly median,[5] and a range of ten cents was allowed on either side. Months where it was evident from the nature of the data that the average for one

[5] The median was used as an average in the analysis of daily differentials while the mean was used when analyzing yearly, seasonal, and weekly differentials.

month was more applicable to the first part of the following month, or to the last part of the preceding month than was the median for the specific month, this average was arbitrarily used for these periods.[6]

VI. NUMBER OF DAYS IT TOOK HOG PRICE DIFFERENTIALS WHICH HAD VARIED TEN CENTS OR MORE FROM THE MONTHLY AVERAGE TO GET BACK WITHIN TEN-CENT RANGE OF AVERAGE, 1923–1929

Terminal Markets Measured from Chicago and from Kansas City

| Market and Year | From Chicago Base: | | | | | | | From Kansas City Base: | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1 | 2 | 3 | 4 | 5 | 6 | over | 1 | 2 | 3 | 4 | 5 | 6 | over |
| Chicago *and* Kansas City:[a] | | | | | | | | | | | | | | |
| 1923...... | 26 | 11 | 2 | 4 | — | 1 | 1 | 26 | 11 | 2 | 4 | — | 1 | 1 |
| 1924...... | 14 | 7 | 3 | 1 | 2 | 1 | 2 | 14 | 7 | 3 | 1 | 2 | 1 | 2 |
| 1925...... | 14 | 11 | 6 | 2 | — | 1 | 2 | 14 | 11 | 6 | 2 | — | 1 | 2 |
| 1926...... | 24 | 8 | 9 | 5 | 1 | — | — | 24 | 8 | 9 | 5 | 1 | — | — |
| 1927...... | 14 | 8 | 2 | 3 | 2 | — | 2 | 14 | 8 | 2 | 3 | 2 | — | 2 |
| 1928...... | 20 | 2 | 5 | — | 1 | — | 2 | 20 | 2 | 5 | — | 1 | — | 2 |
| 1929...... | 30 | 7 | 3 | 1 | 1 | 1 | 1 | 30 | 7 | 3 | 1 | 1 | 1 | 1 |
| Omaha: | | | | | | | | | | | | | | |
| 1923...... | 20 | 7 | 6 | 2 | 1 | 2 | — | 30 | 6 | 3 | 3 | 2 | 1 | — |
| 1924...... | 13 | 7 | 2 | 5 | 1 | — | 1 | 11 | 7 | 4 | 1 | 2 | — | 1 |
| 1925...... | 23 | 14 | 9 | 3 | — | 1 | 3 | 37 | 10 | 9 | 1 | 2 | — | — |
| 1926...... | 32 | 7 | 6 | 4 | — | 3 | 1 | 27 | 10 | 9 | 5 | 1 | — | 1 |
| 1927...... | 29 | 11 | 4 | 1 | 3 | — | — | 31 | 8 | 4 | 3 | — | 1 | — |
| 1928...... | 33 | 7 | 2 | 4 | 1 | 1 | — | 23 | 10 | 3 | 1 | — | 1 | 2 |
| 1929...... | 30 | 13 | 3 | 4 | 2 | — | 1 | 32 | 6 | 5 | — | 2 | — | — |
| East St. Louis: | | | | | | | | | | | | | | |
| 1923...... | 28 | 7 | 3 | 4 | 1 | 1 | — | 23 | 6 | 9 | 1 | 1 | 1 | 1 |
| 1924...... | 29 | 7 | 3 | 2 | — | — | — | 21 | 6 | 1 | 2 | 4 | 5 | 2 |
| 1925...... | 25 | 15 | 7 | 2 | 1 | — | 2 | 30 | 15 | 5 | 2 | 1 | — | — |
| 1926...... | 32 | 8 | 8 | — | 2 | 1 | 1 | 22 | 16 | 3 | 4 | 1 | — | 2 |
| 1927...... | 25 | 7 | 6 | — | 3 | 2 | 1 | 22 | 15 | 5 | 2 | 1 | — | 1 |
| 1928...... | 20 | 8 | 1 | 1 | 1 | 2 | 1 | 21 | 7 | 5 | 2 | — | 2 | 1 |
| 1929...... | 32 | 9 | 2 | 1 | — | 1 | — | 29 | 11 | 7 | 1 | 1 | — | — |
| South St. Paul: | | | | | | | | | | | | | | |
| 1923...... | 26 | 9 | 1 | 3 | — | 1 | 2 | 33 | 7 | 2 | 3 | 1 | — | 1 |
| 1924...... | 17 | 5 | 6 | 1 | 1 | 1 | — | 14 | 16 | 9 | 5 | — | — | — |
| 1925...... | 33 | 12 | 6 | 1 | 2 | 1 | 1 | 41 | 12 | 7 | 4 | — | — | — |
| 1926...... | 39 | 17 | 6 | 1 | 2 | 1 | 1 | 37 | 14 | 3 | 4 | 2 | 3 | — |
| 1927...... | 33 | 8 | 3 | 3 | 1 | — | — | 30 | 10 | 5 | 3 | 2 | 1 | 1 |
| 1928...... | 33 | 6 | 4 | 2 | — | — | 1 | 27 | 9 | 4 | — | 1 | — | 1 |
| 1929...... | 23 | 7 | 8 | 3 | — | — | — | 26 | 8 | 8 | 1 | 1 | 1 | 1 |

[a]Chicago measured from Kansas City and Kansas City measured from Chicago.

Specifically, therefore, this was an attempt to measure the number of days price differentials, when they

[6] This procedure of necessity requires the exercise of personal judgment to a greater extent than is customary in statistical analysis.

varied more than ten cents from the median, took to get back within this range. The results obtained for markets measured from the Chicago and the Kansas City base are shown in Table VI on page 389.

When Chicago was used as a base, the most common behavior was for differentials to swing back to within ten cents of the average in one day. This occurred 54 per cent of the time at Kansas City, 55 per cent of the time at Omaha, 61 per cent of the time at East St. Louis, and 62 per cent of the time at South St. Paul on the average for the seven-year period. About 20 per cent of the time the differentials swung back within the ten-cent range of the average in two days, and about 10 per cent of the time in three days. The number of times four or more days were required decreased as the number of days decreased, the longest period being 14 days.[7]

With Kansas City as a base, a differential, when varying more than ten cents from the average differential for the month, swung back to within the range in approximately the same manner as with Chicago as a base. There was some variation, however. When the differential at Omaha measured from Kansas City moved outside the prescribed belt, it came back in one day 61 per cent of the time on the average as compared to 55 per cent of the time when measured from Chicago. At East St. Louis the corresponding figures were 53 per cent and 61 per cent, and at South St. Paul 58 per cent and 62 per cent. The times it took more than one day to swing back within the range also varied somewhat at these markets when measured from different bases.

The significant thing is that about 55 to 60 per cent of the time, when the differential at these markets

[7] When it takes more than about six days for differentials to get back within the ten-cent range of the median, it is almost always a question whether the average used for the month was representative.

measured from either Chicago or Kansas City moved outside the ten-cent range from the average, it swung back in one day. From 75 to 80 per cent of the time, it came back within two days, from 85 to 90 per cent of the time within three days, and from 90 to 95 per cent of the time within four days.

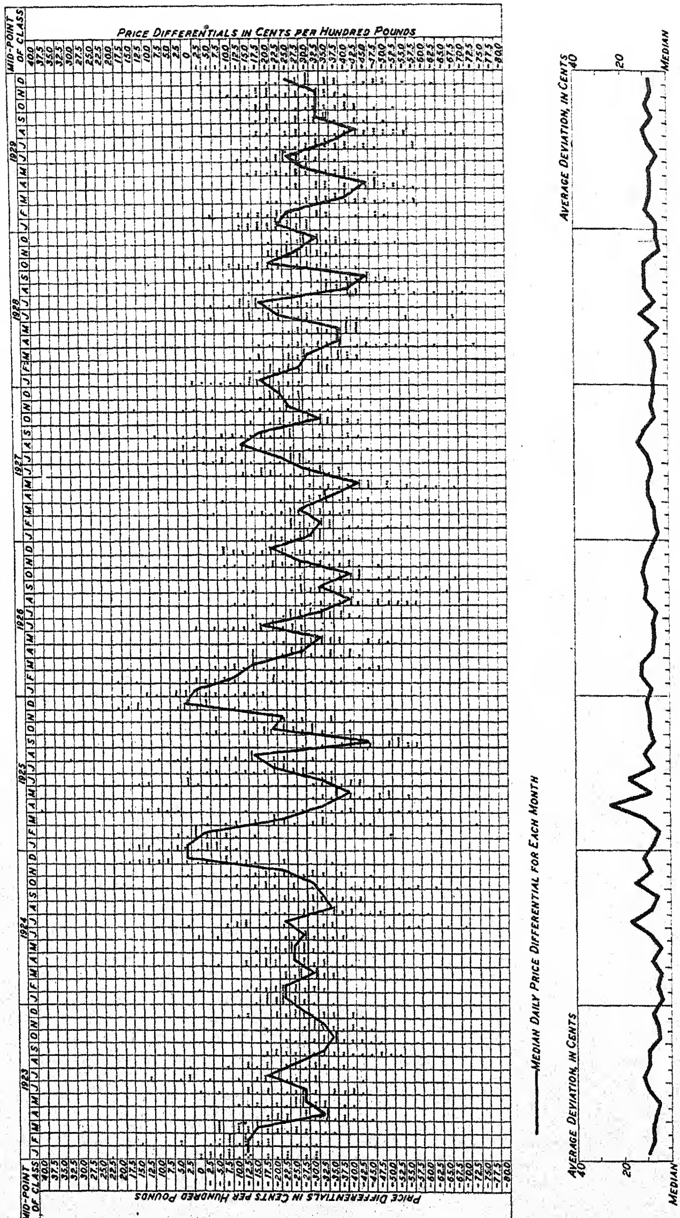
*Magnitude of change.* The foregoing discussion shows how often changes in differentials between markets took place. It is of interest also to see how large these variations were. The upper portions of Charts 7, 8, 9, and 10 on pages 392–95 show the frequency distribution of daily differentials (at 2.5-cent intervals) by months for the seven years 1923–1929 when markets were measured from Chicago; and the upper portions of Charts 11, 12, and 13 on pages 396–98 present similar data for the markets when measured from Kansas City.[8] Although there is apparent similarity in the distribution of daily differentials by months for some of the markets, there are differences in detail; and the data are shown for all markets studied in order that the comparison may be more complete. A detailed analysis will not be made, but attention is called to two general characteristics of the daily differentials at all markets: (1) They showed considerable variability during the month with but slight tendency to concentration at given values. (2) They displayed a certain degree of seasonality. A discussion of the latter characteristic has been given in Section II of this appendix. Monthly medians are shown in Chart 7 on page 392, however, in order that we may get a better idea of the character of daily differentials.

It is convenient to resort to some statistical measure of dispersion in comparing the variability of daily differentials. The average deviation is adopted as a

[8] Since the distribution of daily differentials at Chicago measured from Kansas City was the same as for Kansas City measured from Chicago, except when one was positive the other was negative, it is not shown graphically.

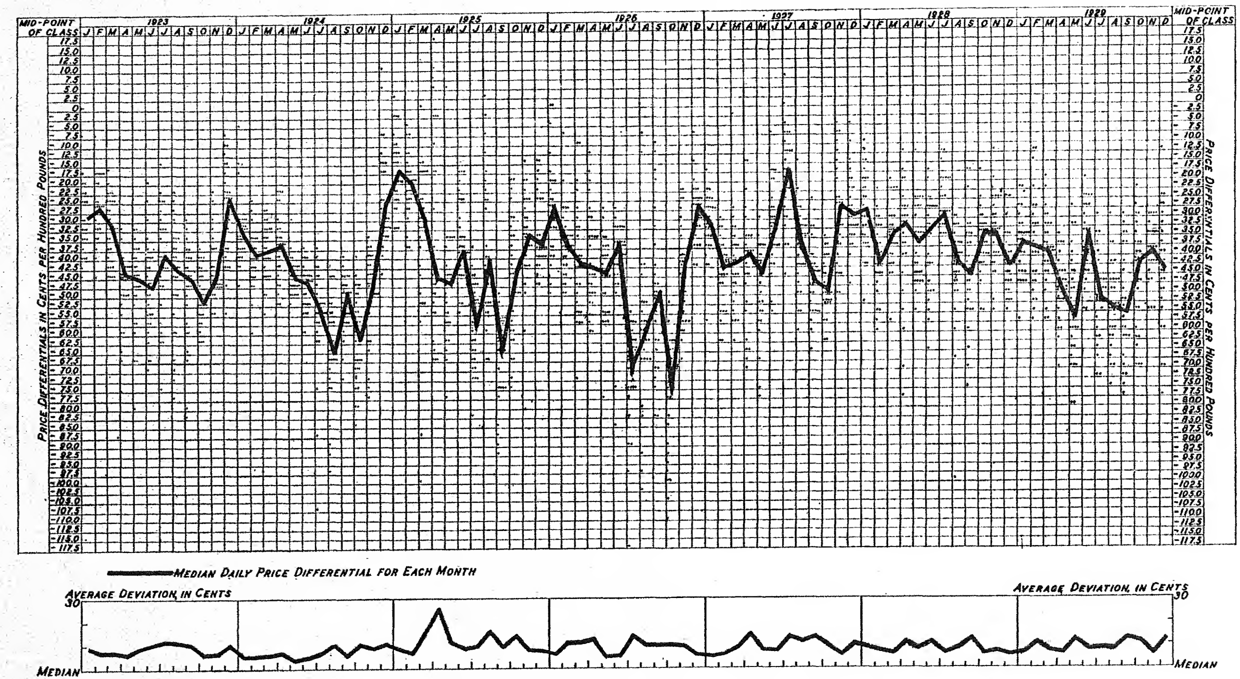
7. Frequency Distribution, Median, and Average Deviation from Median, of Daily Price Differentials, by Months, 1923–1929

Kansas City from Chicago



8. Frequency Distribution, Median, and Average Deviation from Median, of Daily Price Differentials, by Months, 1923–1929[a]

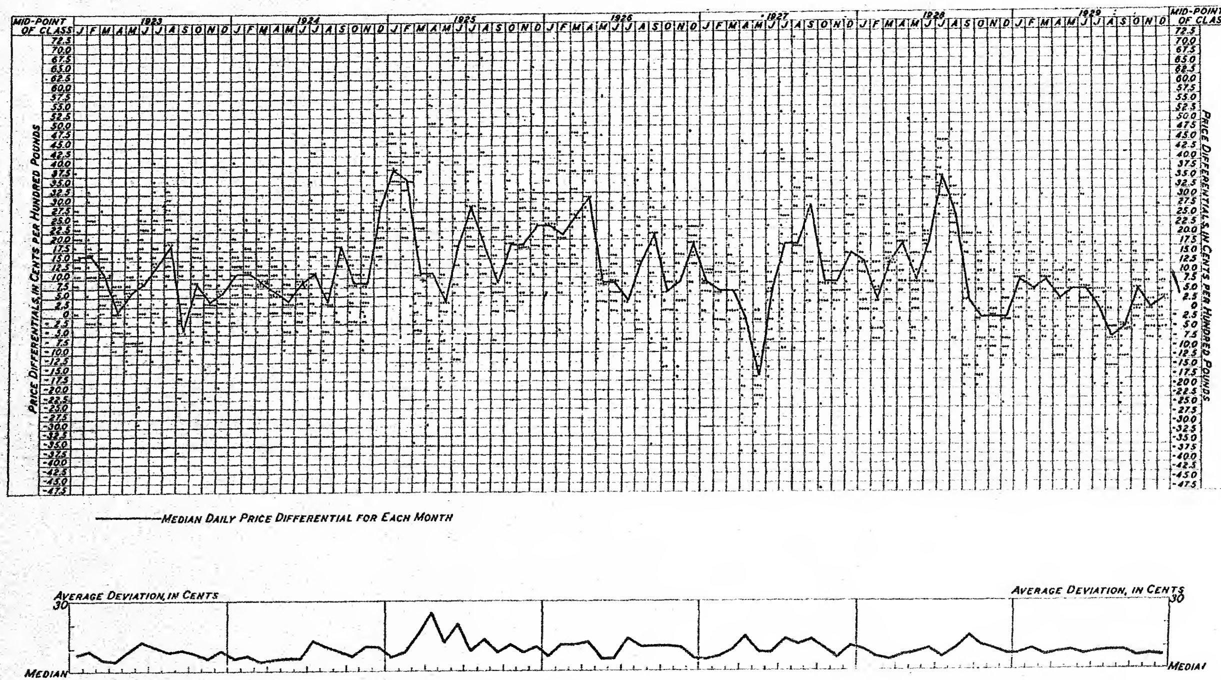
OMAHA FROM CHICAGO




[a] There was a price difference in July, 1924 of $1.625 and in July, 1926 of $1.25.

9. FREQUENCY DISTRIBUTION, MEDIAN, AND AVERAGE DEVIATION FROM MEDIAN, OF DAILY PRICE DIFFERENTIALS, BY MONTHS, 1923–1929[a]

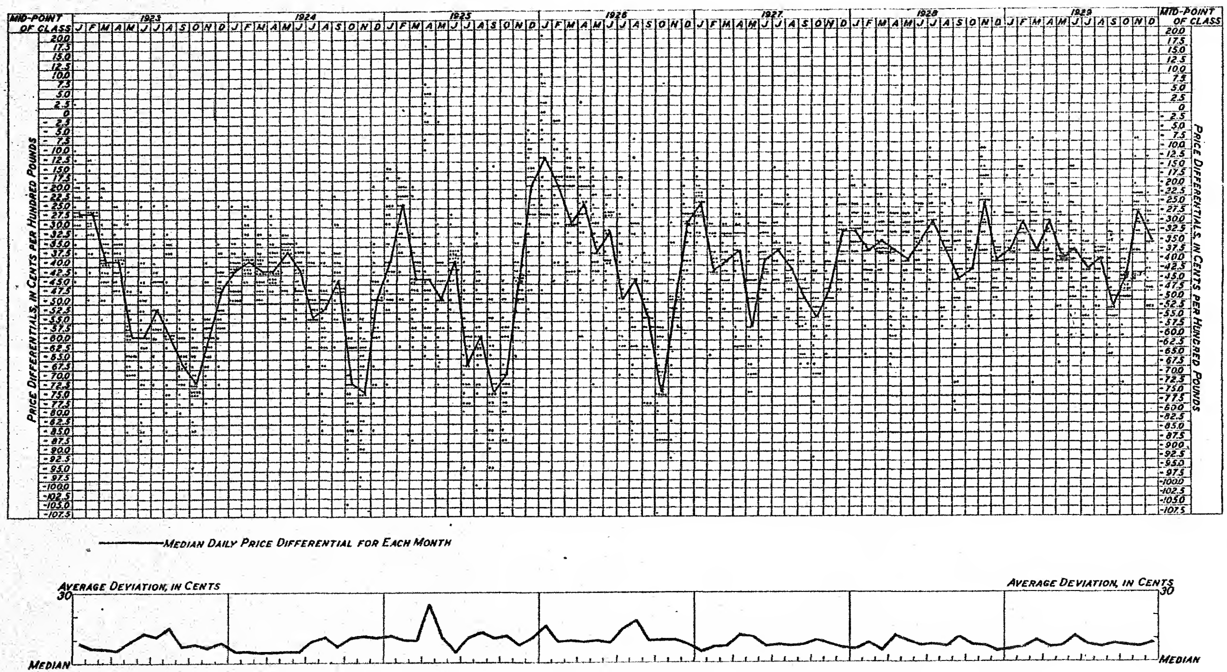
EAST ST. LOUIS FROM CHICAGO




[a] There was a price difference in April, 1925 of $0.90.

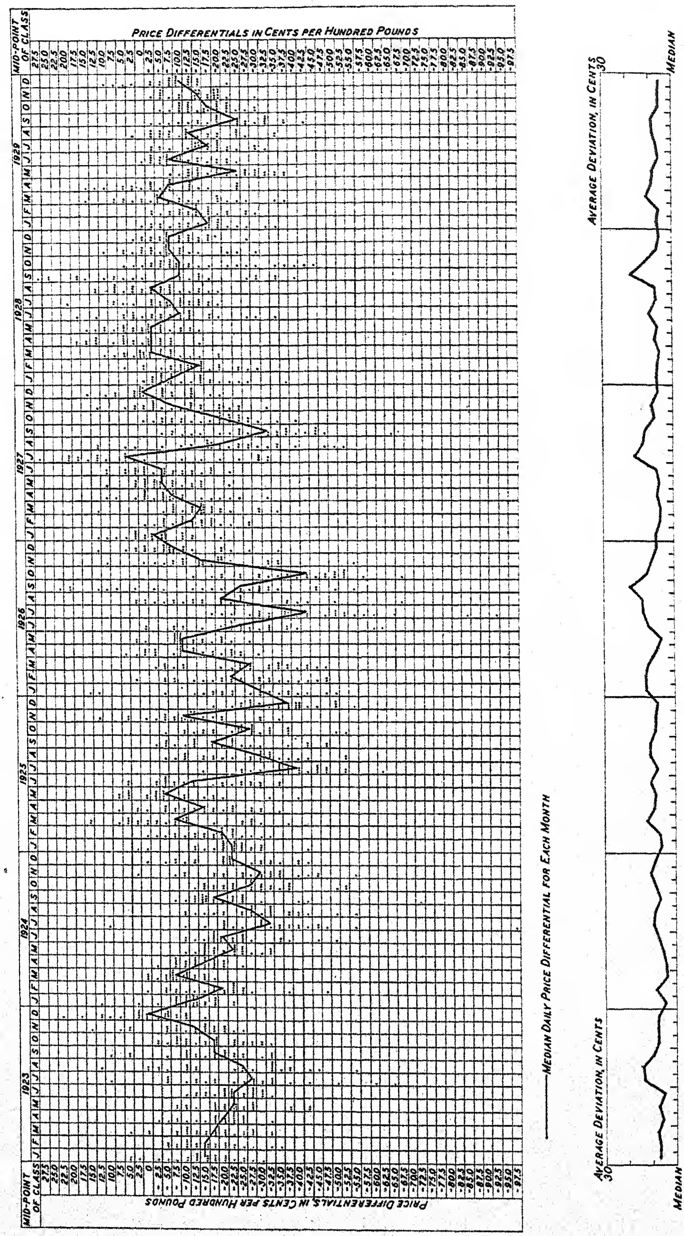
10. Frequency Distribution, Median, and Average Deviation from Median, of Daily Price Differentials, by Months, 1923–1929

SOUTH ST. PAUL FROM CHICAGO



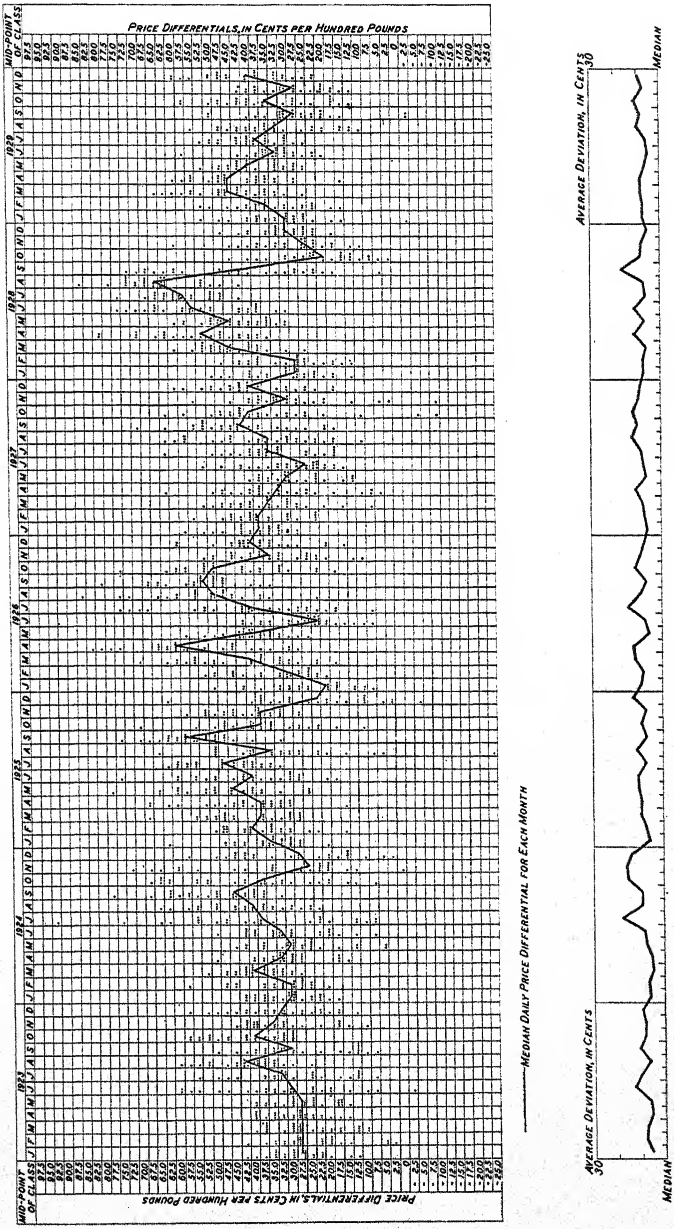
11. Frequency Distribution, Median, and Average Deviation from Median, of Daily Price Differentials, by Months, 1923–1929

OMAHA FROM KANSAS CITY



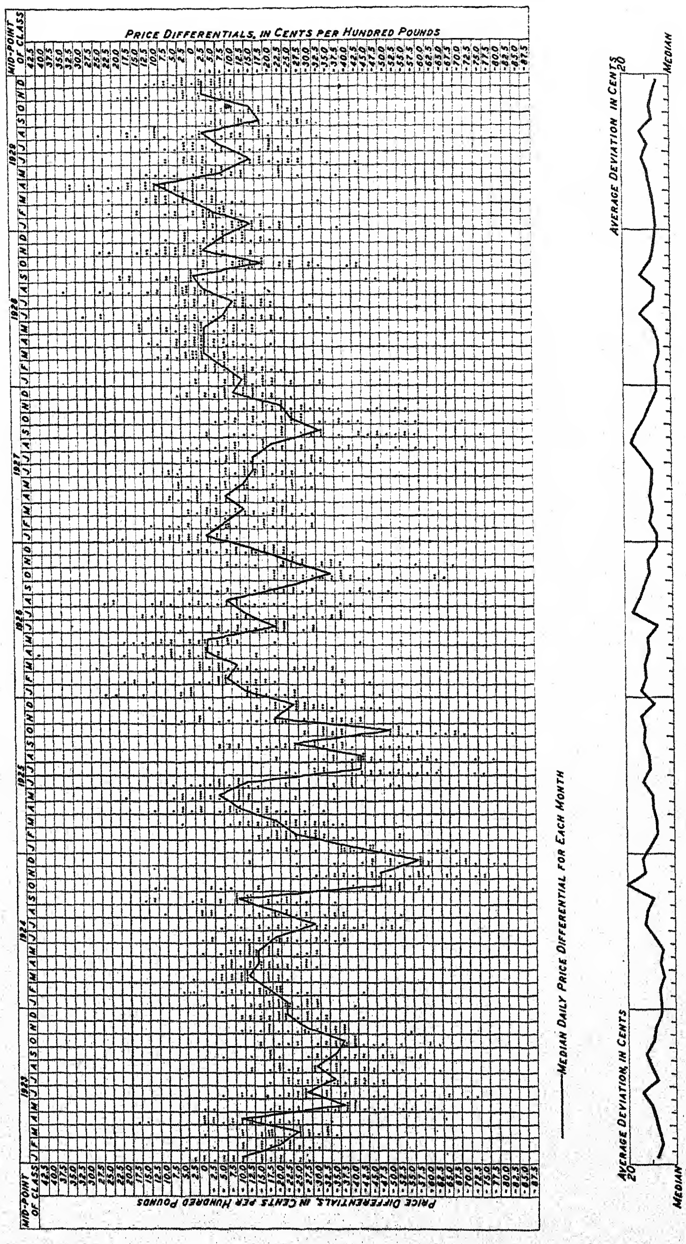
## 12. Frequency Distribution, Median, and Average Deviation from Median, of Daily Price Differentials, by Months, 1923–1929

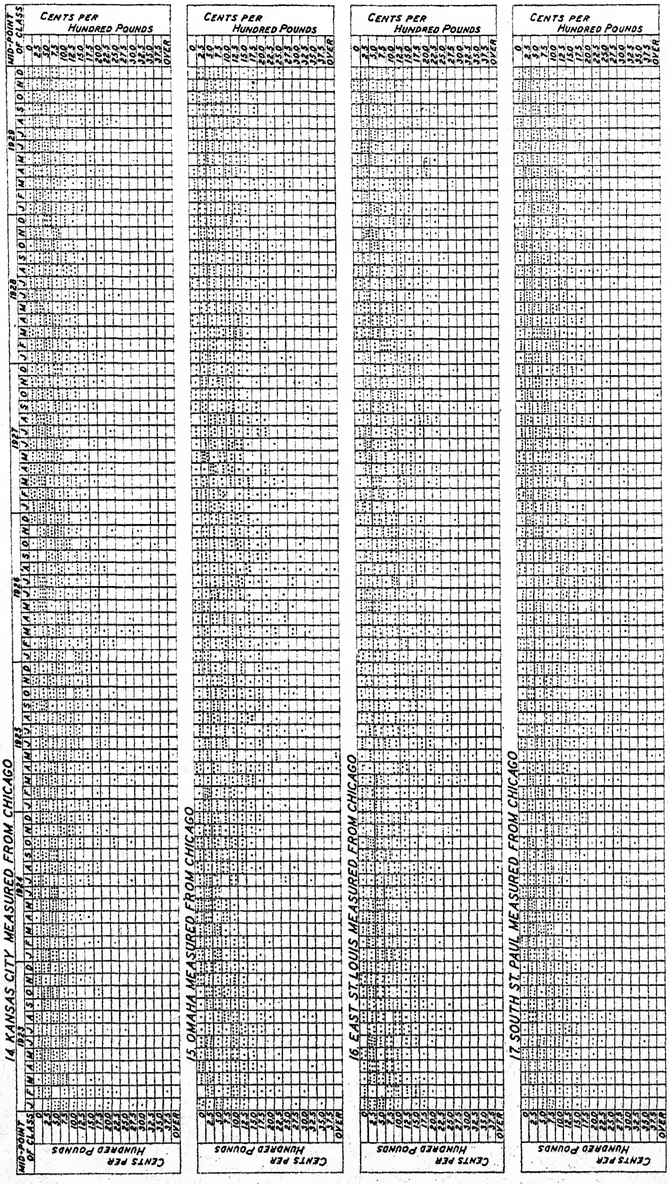
EAST ST. LOUIS FROM KANSAS CITY



13. Frequency Distribution, Median, and Average Deviation from Median, of Daily Price Differentials, by Months, 1923–1929

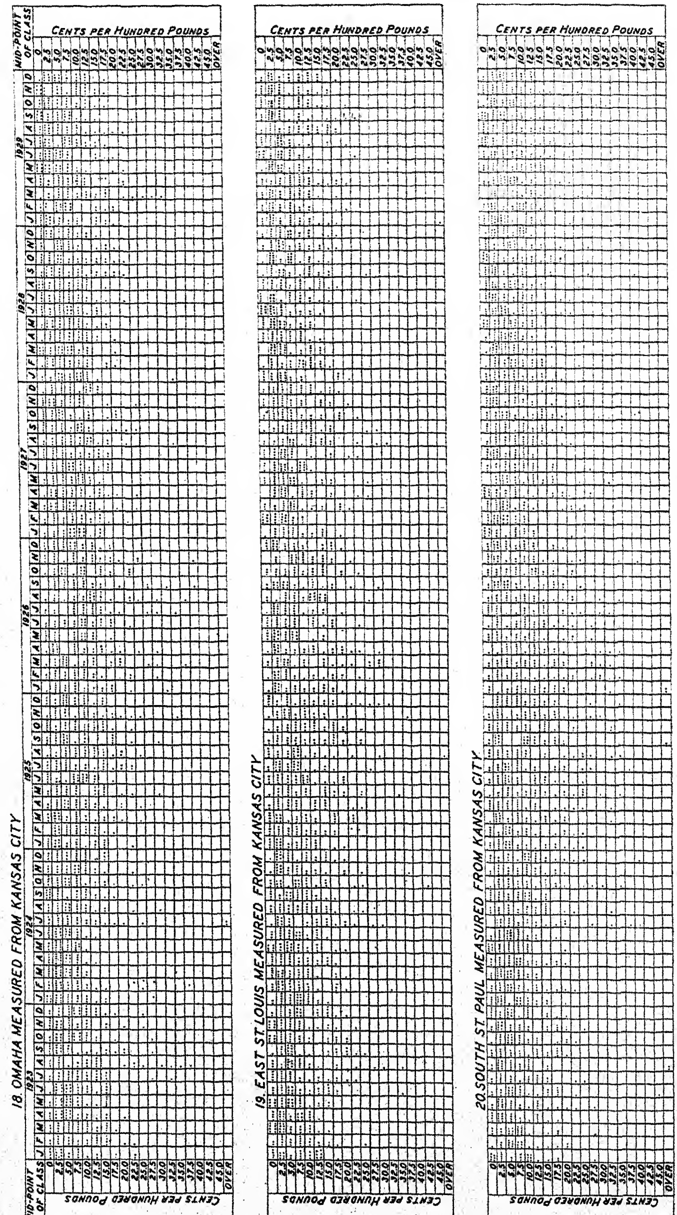
South St. Paul from Kansas City






14–17. Frequency Distribution of Day-to-Day Change in Price Differentials, by Months, 1923–1929

18–20. Frequency Distribution of Day-to-Day Change in Price Differentials, by Months, 1923-1929



measure of variability and the median is used as the average differential for the month. The dispersion is measured from this average. The average deviation of hog price differentials for the different markets measured from Chicago and Kansas City is shown in the lower portions of Charts 7 to 13 on pages 392–98 at the corresponding markets for which frequency distributions of price differentials are given.

The variation of daily differentials from monthly medians at the different markets was not uniform throughout the year. As a rule, deviations tended to be less during the first two or three and the last one or two months of the year, and there was a tendency for the average deviations to increase during the summer. This statement applies in general to all markets whether measured from Chicago or from Kansas City. Although average deviations showed some seasonality, it was by no means regular.

The means of monthly average deviations for markets measured from Chicago were quite uniform for 1923, 1924, 1927, 1928, and 1929, while the average deviations for 1925 and 1926 were somewhat greater. The only exception to this was East St. Louis, where the average deviation for 1927 slightly exceeded the average deviation for 1926 when measured from Chicago, and the average deviation for 1924 was greater than for 1925 when measured from Kansas City.

The average for the year shows that Omaha differentials when measured from Kansas City varied less than when measured from Chicago during 1924, 1925, 1928, and 1929, but varied more during 1923, 1926, and 1927. The deviation of daily differentials at East St. Louis was less when measured from Kansas City than when measured from Chicago for 1925 and 1927, but greater in the other five years. For South St. Paul the differentials varied less measured from Chicago in all years except 1925, when they varied less measured from Kansas City.

## VII. Frequency Distribution of Day-to-Day Changes in Hog Price Differentials at Specified Terminal Markets, Measured from Chicago, 1923–1929

(In cents per hundredweight)

### A. Kansas City

| Day-to-Day Change | 1923 | 1924 | 1925 | 1926 | 1927 | 1928 | 1929 |
|---|---|---|---|---|---|---|---|
| 0.0 | 47 | 45 | 41 | 28 | 48 | 45 | 31 |
| 2.5 | 64 | 70 | 54 | 69 | 73 | 71 | 79 |
| 5.0 | 57 | 80 | 56 | 42 | 61 | 61 | 54 |
| 7.5 | 63 | 46 | 49 | 59 | 54 | 55 | 54 |
| 10.0 | 25 | 30 | 23 | 30 | 24 | 29 | 31 |
| 12.5 | 23 | 11 | 36 | 25 | 21 | 25 | 24 |
| 15.0 | 10 | 9 | 15 | 23 | 12 | 9 | 10 |
| 17.5 | 7 | 8 | 12 | 12 | 6 | 5 | 15 |
| 20.0 | 4 | 1 | 7 | 6 | 3 | 3 | 5 |
| 22.5 | 2 | 5 | 3 | 3 | 3 | 1 | 4 |
| 25.0 | 1 | — | 2 | 1 | — | 1 | 1 |
| 27.5 | 2 | 2 | 3 | 2 | — | 2 | — |
| 30.0 | 1 | — | 2 | 4 | — | — | — |
| 32.5 | — | — | 1 | — | — | — | — |
| 35.0 | — | — | 1 | 1 | — | — | — |
| 37.5 | 1 | — | 1 | — | — | — | — |
| 40.0 | — | — | — | — | — | — | — |
| 42.5 | — | — | — | — | — | — | — |
| 45.0 | — | — | — | — | — | — | — |
| 47.5 | — | — | — | — | — | — | — |
| 50.0 | — | — | — | — | — | — | — |
| 52.5 | — | — | 1 | — | — | — | — |
| Total | 307 | 307 | 307 | 305 | 305 | 307 | 308 |

### B. Omaha

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 0.0 | 39 | 56 | 32 | 25 | 25 | 25 | 25 |
| 2.5 | 71 | 74 | 55 | 48 | 57 | 49 | 52 |
| 5.0 | 42 | 69 | 48 | 51 | 55 | 66 | 64 |
| 7.5 | 39 | 41 | 43 | 38 | 49 | 44 | 46 |
| 10.0 | 51 | 29 | 27 | 33 | 43 | 38 | 38 |
| 12.5 | 29 | 19 | 25 | 32 | 26 | 36 | 31 |
| 15.0 | 12 | 7 | 22 | 33 | 19 | 21 | 12 |
| 17.5 | 9 | 5 | 15 | 9 | 8 | 9 | 17 |
| 20.0 | 3 | 1 | 11 | 15 | 11 | 8 | 5 |
| 22.5 | 4 | — | 9 | 6 | 4 | 4 | 7 |
| 25.0 | — | 2 | 7 | 4 | 3 | 3 | 4 |
| 27.5 | 2 | 1 | 3 | 5 | 2 | 1 | 4 |
| 30.0 | 2 | — | 2 | 3 | 1 | 2 | — |
| 32.5 | 2 | 1 | 1 | 2 | 2 | — | 1 |
| 35.0 | 1 | — | 1 | 1 | — | — | — |
| 37.5 | — | — | 1 | 1 | — | — | 1 |
| 40.0 | — | — | 1 | — | 1 | 1 | — |
| 42.5 | — | — | — | — | — | — | — |
| 45.0 | — | — | — | — | — | — | — |
| 47.5 | — | — | 1 | — | — | — | — |
| 50.0 | — | — | — | — | — | — | — |
| 52.5 | — | — | 1 | — | — | — | — |
| 55.0 | — | 1 | — | 1 | — | — | — |
| 57.5 | — | — | — | — | — | — | — |
| 60.0 | — | — | 1 | — | — | — | — |
| 62.5 | — | — | — | — | — | — | — |
| 65.0 | — | — | — | — | — | — | — |
| 67.5 | — | — | — | — | — | — | — |
| 70.0 | — | — | — | — | — | — | — |
| 72.5 | — | — | — | — | — | — | — |
| 75.0 | — | 1 | — | — | — | — | — |
| Total | 306 | 307 | 306 | 307 | 306 | 307 | 307 |

VII. Frequency Distribution of Day-to-Day Changes in Hog Price Differentials at Specified Terminal Markets, Measured from Chicago, 1923–1929—*Continued*

(In cents per hundredweight)

C. East St. Louis

| Day-to-Day Change | 1923 | 1924 | 1925 | 1926 | 1927 | 1928 | 1929 |
|---|---|---|---|---|---|---|---|
| 0.0 | 32 | 28 | 31 | 34 | 28 | 36 | 34 |
| 2.5 | 72 | 59 | 40 | 44 | 57 | 66 | 68 |
| 5.0 | 50 | 72 | 52 | 55 | 51 | 54 | 53 |
| 7.5 | 45 | 50 | 36 | 42 | 40 | 48 | 41 |
| 10.0 | 45 | 42 | 30 | 54 | 40 | 45 | 35 |
| 12.5 | 19 | 22 | 23 | 21 | 29 | 23 | 21 |
| 15.0 | 21 | 11 | 32 | 19 | 21 | 12 | 26 |
| 17.5 | 11 | 9 | 13 | 16 | 17 | 8 | 4 |
| 20.0 | 6 | 2 | 16 | 7 | 7 | 9 | 12 |
| 22.5 | 2 | 5 | 7 | 9 | 9 | 3 | 5 |
| 25.0 | 2 | 3 | 8 | 2 | — | 1 | 5 |
| 27.5 | 1 | 2 | 6 | 2 | 2 | 1 | 4 |
| 30.0 | — | — | 3 | 1 | — | — | — |
| 32.5 | — | — | 1 | — | 1 | — | — |
| 35.0 | — | 1 | 2 | 1 | 1 | — | — |
| 37.5 | — | — | 1 | — | — | 1 | — |
| 40.0 | — | 1 | 2 | — | — | — | — |
| 42.5 | — | — | — | — | 1 | — | — |
| 45.0 | — | — | 1 | — | — | — | — |
| 47.5 | — | — | — | — | 1 | — | — |
| 50.0 | — | — | 1 | — | — | — | — |
| 52.5 | — | — | 1 | — | — | — | — |
| 55.0 | — | — | — | — | — | — | — |
| 57.5 | — | — | — | — | — | — | — |
| 60.0 | — | — | — | — | — | — | — |
| 62.5 | — | — | — | — | — | — | — |
| 65.0 | — | — | — | — | — | — | — |
| 67.5 | — | — | 1 | — | — | — | — |
| Total | 306 | 307 | 307 | 307 | 305 | 307 | 308 |

D. South St. Paul

| Day-to-Day Change | 1923 | 1924 | 1925 | 1926 | 1927 | 1928 | 1929 |
|---|---|---|---|---|---|---|---|
| 0.0 | 33 | 42 | 33 | 42 | 50 | 38 | 40 |
| 2.5 | 61 | 79 | 53 | 33 | 55 | 65 | 58 |
| 5.0 | 51 | 54 | 47 | 54 | 48 | 62 | 63 |
| 7.5 | 44 | 59 | 37 | 28 | 46 | 42 | 40 |
| 10.0 | 30 | 19 | 28 | 29 | 32 | 34 | 39 |
| 12.5 | 29 | 17 | 29 | 30 | 28 | 27 | 27 |
| 15.0 | 20 | 16 | 19 | 23 | 18 | 13 | 9 |
| 17.5 | 13 | 8 | 14 | 14 | 13 | 12 | 12 |
| 20.0 | 10 | 2 | 12 | 18 | 6 | 6 | 8 |
| 22.5 | 5 | 2 | 8 | 15 | 5 | 2 | 6 |
| 25.0 | 6 | 1 | 6 | 4 | 2 | 2 | 2 |
| 27.5 | — | 3 | 7 | 3 | — | 2 | — |
| 30.0 | — | 3 | 5 | 4 | 2 | 1 | — |
| 32.5 | 1 | 1 | 2 | 4 | 1 | — | 1 |
| 35.0 | 1 | — | 2 | 2 | 1 | — | — |
| 37.5 | — | 1 | 1 | 3 | — | — | — |
| 40.0 | — | — | — | — | — | — | — |
| 42.5 | 1 | — | 1 | — | — | — | — |
| 45.0 | — | — | — | — | — | — | 1 |
| 47.5 | 1 | — | 2 | — | — | — | — |
| 50.0 | — | — | 1 | — | — | — | — |
| 52.5 | — | — | — | — | — | — | — |
| 55.0 | — | — | — | — | — | — | — |
| 57.5 | — | — | — | — | — | — | — |
| 60.0 | — | — | — | — | — | — | — |
| 62.5 | — | — | — | — | — | — | — |
| 65.0 | — | — | — | — | — | — | — |
| 67.5 | — | — | — | 1 | — | — | — |
| Total | 306 | 307 | 307 | 307 | 306 | 306 | 306 |

## VIII. Frequency Distribution of Day-to-Day Changes in Hog Price Differentials at Specified Terminal Markets, Measured from Kansas City, 1923–1929

(In cents per hundredweight)

### A. Omaha

| Day-to-Day Change | 1923 | 1924 | 1925 | 1926 | 1927 | 1928 | 1929 |
|---|---|---|---|---|---|---|---|
| 0.0 | 34 | 50 | 33 | 22 | 30 | 40 | 46 |
| 2.5 | 66 | 78 | 51 | 49 | 53 | 54 | 65 |
| 5.0 | 54 | 54 | 52 | 37 | 52 | 62 | 53 |
| 7.5 | 41 | 53 | 43 | 43 | 48 | 46 | 47 |
| 10.0 | 32 | 30 | 38 | 42 | 45 | 38 | 29 |
| 12.5 | 25 | 14 | 27 | 34 | 33 | 30 | 24 |
| 15.0 | 27 | 13 | 28 | 25 | 20 | 14 | 16 |
| 17.5 | 6 | 3 | 13 | 18 | 12 | 13 | 12 |
| 20.0 | 6 | 2 | 9 | 8 | 6 | 7 | 6 |
| 22.5 | 5 | 3 | 7 | 9 | 3 | 3 | 5 |
| 25.0 | 3 | 3 | 4 | 4 | 4 | — | 2 |
| 27.5 | 3 | — | — | 4 | 1 | — | 1 |
| 30.0 | 1 | 1 | 2 | 5 | — | — | 1 |
| 32.5 | 2 | — | — | 2 | — | — | 1 |
| 35.0 | 1 | — | 1 | 1 | 1 | 1 | — |
| 37.5 | 1 | 1 | — | 2 | — | — | — |
| 40.0 | — | — | — | 2 | — | — | — |
| 42.5 | — | — | — | — | — | — | — |
| 45.0 | — | — | — | — | — | — | — |
| 47.5 | — | — | — | — | — | — | — |
| 50.0 | — | — | — | — | — | — | — |
| 52.5 | — | — | — | — | — | — | — |
| 55.0 | — | — | — | — | — | — | — |
| 57.5 | — | — | — | — | — | — | — |
| 60.0 | — | 1 | — | — | — | — | — |
| 62.5 | — | — | — | — | — | — | — |
| 65.0 | — | — | — | — | — | — | — |
| 67.5 | — | 1 | — | — | — | — | — |
| Total | 307 | 307 | 308 | 307 | 308 | 308 | 308 |

### B. East St. Louis

| Day-to-Day Change | 1923 | 1924 | 1925 | 1926 | 1927 | 1928 | 1929 |
|---|---|---|---|---|---|---|---|
| 0.0 | 49 | 38 | 33 | 25 | 32 | 35 | 34 |
| 2.5 | 60 | 64 | 52 | 67 | 43 | 72 | 82 |
| 5.0 | 54 | 48 | 43 | 44 | 66 | 59 | 49 |
| 7.5 | 46 | 47 | 44 | 44 | 51 | 40 | 37 |
| 10.0 | 23 | 39 | 32 | 21 | 35 | 35 | 38 |
| 12.5 | 22 | 26 | 27 | 30 | 24 | 31 | 28 |
| 15.0 | 20 | 20 | 22 | 30 | 18 | 19 | 12 |
| 17.5 | 16 | 7 | 22 | 17 | 16 | 8 | 12 |
| 20.0 | 7 | 8 | 11 | 11 | 8 | 6 | 9 |
| 22.5 | 4 | 3 | 6 | 4 | 3 | 1 | 5 |
| 25.0 | 2 | 3 | 7 | 5 | 4 | 1 | 2 |
| 27.5 | 1 | 1 | 2 | 4 | 3 | 1 | — |
| 30.0 | 1 | 1 | 2 | 5 | 2 | — | — |
| 32.5 | — | 1 | 2 | — | 2 | — | — |
| 35.0 | 2 | — | 1 | — | — | — | — |
| 37.5 | — | 1 | 1 | — | — | — | — |
| 40.0 | — | — | — | — | — | — | — |
| 42.5 | — | 1 | — | — | — | — | — |
| 45.0 | — | — | — | — | — | — | — |
| 47.5 | — | — | — | — | — | — | — |
| 50.0 | — | — | — | — | — | — | 1 |
| 52.5 | — | — | 1 | — | — | — | — |
| Total | 307 | 308 | 308 | 307 | 307 | 308 | 309 |

VIII. Frequency Distribution of Day-to-Day Changes in Hog Price Differentials at Specified Terminal Markets, Measured from Kansas City, 1923–1929—*Continued*

(In cents per hundredweight)

C. South St. Paul

| Day-to-Day Change | 1923 | 1924 | 1925 | 1926 | 1927 | 1928 | 1929 |
|---|---|---|---|---|---|---|---|
| 0.0 . . . . . . . . | 33 | 36 | 27 | 31 | 46 | 44 | 41 |
| 2.5 . . . . . . . . | 64 | 57 | 51 | 48 | 58 | 66 | 58 |
| 5.0 . . . . . . . . | 60 | 52 | 49 | 35 | 53 | 56 | 58 |
| 7.5 . . . . . . . . | 42 | 44 | 38 | 32 | 40 | 46 | 40 |
| 10.0 . . . . . . . . | 29 | 40 | 28 | 31 | 37 | 35 | 30 |
| 12.5 . . . . . . . . | 22 | 25 | 24 | 38 | 26 | 25 | 28 |
| 15.0 . . . . . . . . | 18 | 20 | 23 | 20 | 12 | 13 | 15 |
| 17.5 . . . . . . . . | 20 | 10 | 18 | 19 | 14 | 7 | 16 |
| 20.0 . . . . . . . . | 9 | 10 | 15 | 14 | 7 | 6 | 5 |
| 22.5 . . . . . . . . | 4 | 3 | 8 | 11 | 4 | 2 | 6 |
| 25.0 . . . . . . . . | 2 | 2 | 10 | 3 | 4 | 2 | 3 |
| 27.5 . . . . . . . . | 2 | 2 | 4 | 5 | 3 | 3 | 3 |
| 30.0 . . . . . . . . | — | 1 | 2 | 6 | 1 | — | 2 |
| 32.5 . . . . . . . . | — | 2 | 5 | 5 | 2 | 1 | 2 |
| 35.0 . . . . . . . . | — | 1 | 3 | 5 | — | — | — |
| 37.5 . . . . . . . . | — | 1 | 1 | — | — | — | — |
| 40.0 . . . . . . . . | — | 2 | — | 1 | — | 1 | — |
| 42.5 . . . . . . . . | — | — | — | — | — | — | — |
| 45.0 . . . . . . . . | 1 | — | — | — | — | — | — |
| 47.5 . . . . . . . . | — | — | 1 | 1 | — | — | — |
| 50.0 . . . . . . . . | 2 | — | — | 1 | — | — | — |
| Total . . . . . | 308 | 308 | 307 | 306 | 307 | 307 | 307 |

Besides making a frequency distribution of differentials between given markets, we examined the extent of the change from one day to the next. Such day-to-day variations at Kansas City, Omaha, East St. Louis, and South St. Paul measured from Chicago for the period 1923–1929 inclusive are shown in Charts 14, 15, 16, and 17 respectively on page 399; and at Omaha, East St. Louis, and South St. Paul measured from Kansas City for the same period in Charts 18, 19, and 20 respectively on page 400.[9] There was no apparent seasonal characteristic in day-to-day change in differential at any of the markets measured from Chicago and Kansas City, although there was a tendency for the change to be less from one day to the

[9] Original prices of hogs break at 5 cents per hundredweight and, since the data used are based upon the mid-point of the range quoted, the minimum change in differential between two markets is 2.5 cents.

next at the beginning and end of the year than during the summer.

Table VII beginning on page 402 gives the frequency distribution of day-to-day change in hog price differentials for the period 1923–1929 inclusive at Kansas City, Omaha, East St. Louis, and South St. Paul respectively measured from Chicago; and Table VIII beginning on page 404 gives similar data for Omaha, East St. Louis, and South St. Paul respectively measured from Kansas City. The figures for Kansas City indicate that on 22 per cent of the market days a change of 2.5 cents occurred, on 19 per cent a change of 5 cents, on 18 per cent a change of 7.5 cents, on 13 per cent no change, on 9 per cent a change of 10 cents, on 8 per cent a change of 12.5 cents; that in general, as the amount of change increased, the percentage of days decreased. The greatest day-to-day change was 52.5 cents. The frequency distribution of the day-to-day changes whether measured from Chicago or from Kansas City was not very different in character.

IX. AVERAGE CHANGE IN DAY-TO-DAY HOG PRICE DIFFERENTIALS AT SPECIFIED TERMINAL MARKETS, MEASURED FROM CHICAGO AND FROM KANSAS CITY, 1923–1929

(In cents per hundredweight)

| Market | 1923 | 1924 | 1925 | 1926 | 1927 | 1928 | 1929 |
|---|---|---|---|---|---|---|---|
| From Chicago Base: | | | | | | | |
| Kansas City | 6.5 | 5.9 | 8.0 | 7.9 | 5.9 | 6.1 | 6.8 |
| Omaha | 7.4 | 5.9 | 9.5 | 9.8 | 8.3 | 8.3 | 8.4 |
| East St. Louis | 7.2 | 7.4 | 10.7 | 8.4 | 8.6 | 7.1 | 7.8 |
| South St. Paul | 8.3 | 6.7 | 10.1 | 10.4 | 7.5 | 7.1 | 7.4 |
| From Kansas City Base: | | | | | | | |
| Chicago | 6.5 | 5.9 | 8.0 | 7.9 | 5.9 | 6.1 | 6.8 |
| Omaha | 8.0 | 6.4 | 8.5 | 10.2 | 8.0 | 7.2 | 7.1 |
| East St. Louis | 7.4 | 7.7 | 6.3 | 8.9 | 8.3 | 6.9 | 7.2 |
| South St. Paul | 8.1 | 8.2 | 10.3 | 10.9 | 7.6 | 7.0 | 7.8 |

The average amount of daily change in hog price differentials for the years 1923–1929 at the other markets measured from Chicago and from Kansas City appears in Table IX on this page. Measured from Chicago the average day-to-day change in differentials was

fairly uniform during 1923, 1924, 1927, 1928, and 1929 for each market, but the average change was greater during 1925 and 1926. The same was true, with slight exceptions, when markets were measured from Kansas City.

By a comparison of the average day-to-day change in differentials at East St. Louis and South St. Paul when measured from Chicago and from Kansas City, we find that the average change per day at East St. Louis (and also at Omaha) was greater when measured from Chicago for 1925, 1927, 1928, and 1929, and from Kansas City for 1923, 1924, and 1926. At South St. Paul the average change was greater when measured from Chicago during 1923 and 1928 and from Kansas City for the other five years.

## V. SUMMARY AND CONCLUSIONS

The most common characteristic of hog price differentials between terminal markets is change from year to year, month to month, week to week, and day to day. In fact, it is rather unusual for a differential—particularly a year-to-year, month-to-month, or week-to-week average differential—to remain the same between two markets for two successive periods. Even day-to-day changes in differentials occur approximately four-fifths of the time.

Changing price differentials from period to period (year, month, week, or day) are the result of the action upon the price at individual markets of influences which are effective to a different degree, or are entirely absent, at other markets. The price at every market, from day to day as well as over longer periods, is affected by the broad supply and demand factors in the trade which cause the price movement at all markets to be somewhat similar. However, local market disturbances cause relative prices between markets to change almost continually. These disturbances will affect local prices within limits as the shifting of the

supply of hogs and the orders for hogs and for hog products among markets will tend to bring the price relationship between markets toward an equilibrium.

The daily differential may continue to increase or decrease on successive days, but will reverse itself from one day to the next from one-third to one-half of the time. It is unusual for the differential to change in the same direction more than two or three days in succession. This behavior is the result of price relationships between markets that tend to gravitate to a normal differential after being affected by local market factors.

Daily differentials change most commonly from 5 cents to 10 cents. Even though this does not seem large, a change of from 30 cents to 50 cents, or even more, from one day to the next may take place. Since hogs are sold at terminal markets after they are delivered, the frequent change in market differentials is of concern to the producer or shipper who has access to more than one market. Basing his choice of market upon price relationships one day is hazardous because he has no assurance what the price relationship at alternative markets will be the following day, or perhaps later, when his hogs finally arrive. The market differential is almost sure to change, but the amount and direction of change are uncertain. Changing seasonal and long-time hog price differentials between markets may be taken advantage of with greater dependability.

If the price at other markets followed Chicago closely we would find day-to-day and week-to-week differentials, at least for limited periods, to be constant. This is not the case. It has been pointed out that there was greater uniformity in day-to-day differentials between Omaha and Kansas City for four years, but that Omaha moved in closer conformity with Chicago for three years during the period 1923–1929 inclusive.

East St. Louis varied less when measured from Chicago for five years, but more for two years; and South St. Paul moved more closely with Chicago than with Kansas City every year except one.

Based on average weekly prices, Omaha moved in closer conformity with Kansas City than with Chicago every year during the period. East St. Louis followed Chicago more closely for three years but varied more during the other four. South St. Paul moved with Chicago more closely than with Kansas City for five out of the seven years.

With Omaha following Kansas City more closely than Chicago during the period, and with East St. Louis and South St. Paul following Kansas City more uniformly than they followed Chicago for part of the time, there appears to be no justification for saying that "other markets follow Chicago" or "Chicago sets the price for other markets." Neither does it appear that because Omaha and Kansas City move together more closely than either of them moves with Chicago one of these markets is the price-determining point for the other, or for other markets. On the other hand, the price at the various markets is determined by the same general factors, modified at specific markets by local influences. Chicago affects prices at these other markets but, conversely, other markets influence Chicago; and it is the interplay of forces between markets that causes local price disturbances to be adjusted. Because of the relative size of the Chicago market and its strategic geographical position, we may expect it to have more influence on inter-market price than has any other market. Even so, it is far from being in a position to control price elsewhere.

## APPENDIX B

# THE HOG PRICE STRUCTURE AT INTERIOR MARKETS[1]

The behavior of prices at terminal livestock markets has been discussed in Appendix A. We propose here to call attention to the price situation at interior markets[2] and to point out how it differs from that at terminal markets. Since prices quoted at interior points are not altogether dependable, and since these markets do not classify hogs uniformly, no exhaustive study will be attempted. The rather fragmentary data presented, however, should suffice to illustrate the price structure as we found it and to give a basis for appraising the character and dependability of prices at these points.

The daily prices of medium weight hogs at Austin (Minnesota), Ottumwa (Iowa), and Chicago for 1929 are shown in the chart on page 412.[3] Chicago, a pri-

[1] This appendix was prepared by Knute Bjorka.

[2] The interior markets are private markets where yards and other facilities are available only to those dealing with the agency providing them, and are represented by local packing establishments and concentration points. They are located in producing areas. Interior markets are distinguished from terminal, primary, or public markets, which are open to any trader who complies with the regulations of the local trading organization. Austin, Mason City, Des Moines, and Ottumwa are examples of interior markets while Chicago, Omaha, and Kansas City are terminal markets.

[3] The price at Chicago is based on medium weight (200–250 pounds, medium to choice) grade, at Austin on choice to medium (200–220 pounds), and at Ottumwa, although the classification changed several times during the year, on the grade which comprised the 220-pound weight. The prices at Chicago and Austin are quoted as a range. This was converted to a single value by taking the mid-point of the range price. Ottumwa prices are reported as a single value for each grade. Price

mary market, is plotted on the same graph with the interior markets Austin and Ottumwa. An examination of the curves in this chart will show that (1) the general movement of hog prices at interior markets was similar to that at Chicago; (2) the prices at Austin and Ottumwa were very close together for certain periods during the year but diverged at other periods; (3) the interior market prices were consistently below Chicago throughout the year; and (4) the same price frequently maintained for several days in succession at Austin and Ottumwa while it was uncommon for the price at Chicago to remain the same for even two consecutive days.

Although the various interior markets showed some variation in the frequency of hog price changes, it was more common at each interior market for the same price to continue for two or more days in succession than it was for such stability to occur at any terminal market. The number of consecutive days that the same price quotations prevailed on medium weight hogs at various interior and terminal markets for 1927, 1928, and 1929 is shown in the table on page 414.[4] It may be observed that the price at each interior market maintained for two or more successive days more frequently than at any terminal market. The change from one day to the next for the period 1927–1929 was 36 per cent of the market days at Austin, 33 per cent at Mason City, 47 per cent at Des Moines, and 60 per cent at Ottumwa. These figures compare with 77 per

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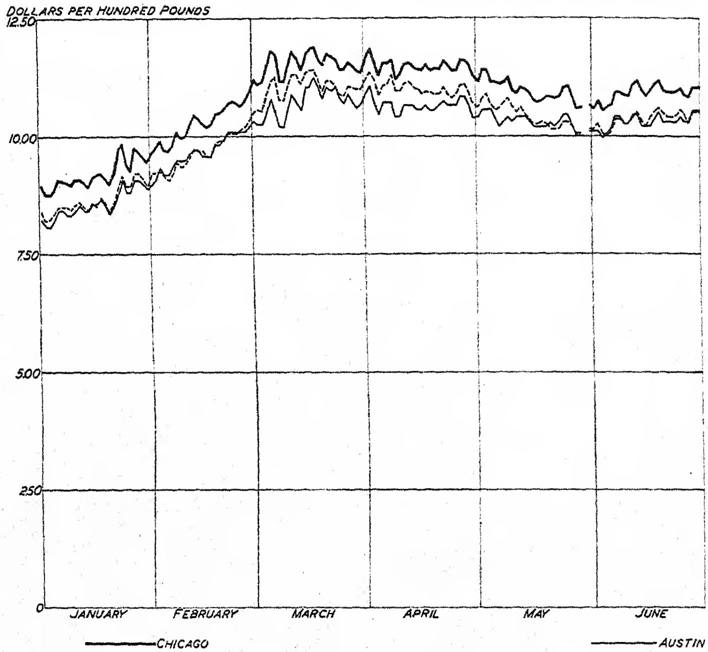
quotations for Chicago were obtained from the Bureau of Agricultural Economics of the U. S. Department of Agriculture, for Ottumwa from the daily files of the *Des Moines Register*, and for Austin from the price cards issued daily by the packer at this market.

[4] Price quotations for Des Moines were obtained from the daily files of the *Des Moines Register* and for Mason City from the price cards issued daily by the packer at this market. The source of the quotations for Austin, Ottumwa, and Chicago is given in footnote 3, p. 410.

cent at Chicago, 82 per cent at Omaha, and 74 per cent at Kansas City. At interior points the same price continued for three or more consecutive days 35 per cent of the time at Austin, 39 per cent at Mason City, 27 per cent at Des Moines, and 14 per cent at Ottumwa. At terminal markets, on the other hand, the same

DAILY PRICES OF MEDIUM WEIGHT HOGS AT

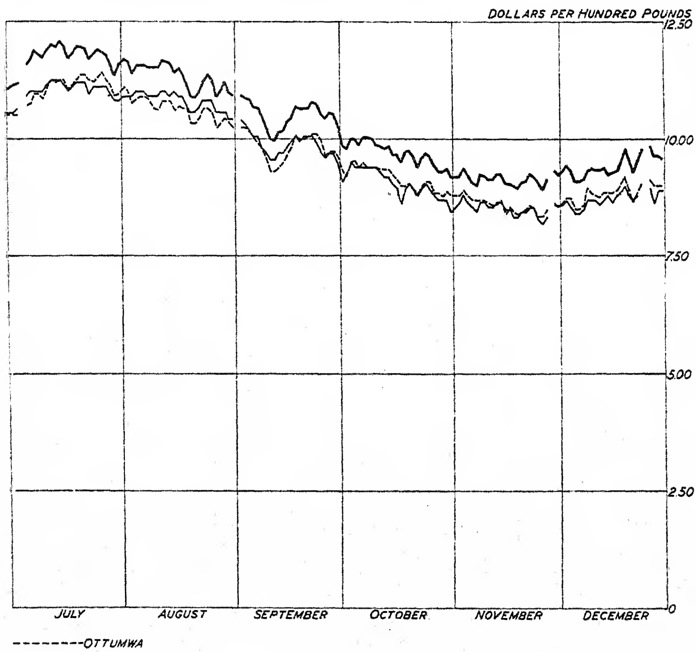



price remained for three or more days in succession 3.7 per cent of the market days at Chicago, 2.4 per cent at Omaha, and 4.7 per cent at Kansas City. The maximum length of time the price remained unchanged at any of the terminal markets was four consecutive days, and this occurred on the average less than once a year, while at interior markets the price remained unchanged for five days or more several times, the

longest period (nine successive days) having occurred at Mason City.

The price differential between any two interior markets changed less frequently than the differential between an interior market and a terminal market. One reason for this was that the terminal market price

AUSTIN, OTTUMWA, AND CHICAGO, 1929




usually changed from day to day while the price at interior markets was less sensitive in its movement. Although the prices at the various interior markets changed less frequently than at terminal markets, they did not necessarily show equal changes in the same direction at the same time, nor remain unchanged for identical periods.

The price of hogs at one interior market was not

CONSECUTIVE DAYS FOR SAME QUOTATION ON MEDIUM WEIGHT HOGS AT SPECIFIED INTERIOR AND TERMINAL MARKETS, 1927–1929

## I. Interior Markets

| Market and Year | Number of Days | | | | | | | | | | As Percentage of All Market Days in Year | | | | | | | | | Market and Year |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | Total | *1* | *2* | *3* | *4* | *5* | *6* | *7* | *8* | *9* | |
| Austin | | | | | | | | | | | | | | | | | | | | Austin |
| 1927 | 95 | 41 | 21 | 8 | 2 | 3 | 1 | — | — | 307 | *31* | *27* | *21* | *10* | *3* | *6* | *2* | — | — | 1927 |
| 1928 | 113 | 52 | 16 | 9 | — | — | 1 | — | — | 308 | *37* | *34* | *15* | *12* | — | — | *2* | — | — | 1928 |
| 1929 | 119 | 42 | 22 | 6 | 1 | 1 | — | — | — | 304 | *39* | *27* | *22* | *8* | *2* | *2* | — | — | — | 1929 |
| Mason City | | | | | | | | | | | | | | | | | | | | Mason City |
| 1927 | 67 | 44 | 12 | 6 | 5 | 5 | 2 | 2 | 1 | 309 | *22* | *28* | *12* | *8* | *8* | *10* | *4* | *5* | *3* | 1927 |
| 1928[a] | 79 | 31 | 8 | 13 | 2 | 2 | — | — | — | 239 | *34* | *26* | *10* | *21* | *4* | *5* | — | — | — | [a]1928 |
| 1929 | 131 | 43 | 15 | 9 | 1 | — | — | — | — | 303 | *43* | *28* | *15* | *12* | *2* | — | — | — | — | 1929 |
| Des Moines | | | | | | | | | | | | | | | | | | | | Des Moines |
| 1927 | 128 | 38 | 17 | 8 | 1 | 2 | — | — | — | 304 | *42* | *25* | *17* | *10* | *2* | *4* | — | — | — | 1927 |
| 1928 | 126 | 48 | 12 | 7 | 1 | 1 | — | — | — | 297 | *43* | *32* | *12* | *9* | *2* | *2* | — | — | — | 1928 |
| 1929 | 163 | 34 | 8 | 8 | 1 | 1 | — | — | — | 298 | *55* | *23* | *8* | *10* | *2* | *2* | — | — | — | 1929 |
| Ottumwa | | | | | | | | | | | | | | | | | | | | Ottumwa |
| 1927 | 168 | 36 | 14 | 1 | 1 | — | — | — | — | 291 | *58* | *25* | *14* | *1* | *2* | — | — | — | — | 1927 |
| 1928 | 173 | 38 | 8 | 4 | — | — | — | — | — | 289 | *60* | *26* | *8* | *6* | — | — | — | — | — | 1928 |
| 1929 | 187 | 37 | 10 | 2 | — | — | — | — | — | 299 | *63* | *25* | *10* | *2* | — | — | — | — | — | 1929 |

## II. Terminal Markets

| Market and Year | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | Total | *1* | *2* | *3* | *4* | *5* | *6* | *7* | *8* | *9* | Market and Year |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Chicago | | | | | | | | | | | | | | | | | | | | Chicago |
| 1927 | 218 | 33 | 5 | 2 | — | — | — | — | — | 307 | *71* | *21* | *5* | *3* | — | — | — | — | — | 1927 |
| 1928 | 237 | 35 | — | — | — | — | — | — | — | 307 | *77* | *23* | — | — | — | — | — | — | — | 1928 |
| 1929 | 255 | 22 | 3 | — | — | — | — | — | — | 308 | *83* | *14* | *3* | — | — | — | — | — | — | 1929 |
| Omaha | | | | | | | | | | | | | | | | | | | | Omaha |
| 1927 | 249 | 24 | 3 | 1 | — | — | — | — | — | 310 | *80* | *16* | *3* | *1* | — | — | — | — | — | 1927 |
| 1928 | 253 | 23 | 3 | — | — | — | — | — | — | 308 | *82* | *15* | *3* | — | — | — | — | — | — | 1928 |
| 1929 | 260 | 24 | — | — | — | — | — | — | — | 308 | *84* | *16* | — | — | — | — | — | — | — | 1929 |
| Kansas City | | | | | | | | | | | | | | | | | | | | Kansas City |
| 1927 | 199 | 43 | 8 | — | — | — | — | — | — | 309 | *64* | *28* | *8* | — | — | — | — | — | — | 1927 |
| 1928 | 236 | 28 | 4 | 1 | — | — | — | — | — | 308 | *77* | *18* | *4* | *1* | — | — | — | — | — | 1928 |
| 1929 | 247 | 29 | — | 1 | — | — | — | — | — | 309 | *80* | *19* | — | *1* | — | — | — | — | — | 1929 |

[a] Data for January and February are not included.

strictly comparable with the price at another because the grade classifications used were not uniform. The following hog classifications used by certain interior markets show the rather wide variation:[5]

*Des Moines*

Prime heavies
Prime mediums
Prime lights
Good packers

(Price was quoted as a range.)

*Mason City*

Sorted lights, 180–230 pounds
Medium weight butchers, 240–260 pounds
Heavy butchers, 270–300 pounds
Prime heavy butchers, 320–360 pounds
Packing sows, smooth, 300–350 pounds
Heavy sows, smooth, 360–400 pounds
Big heavy sows, smooth, 450–500 pounds
Thin, rough, and heavy, 200–600 pounds
Lights, fair to good, 140–160 pounds
Common to good, 110–130 pounds
Poor to good

(Hogs not up to grade were priced accordingly. Single price was quoted for some grades and range for others.)

*Ottumwa*

120–140 pounds
140–160 pounds
160–180 pounds
180–240 pounds
240–300 pounds
300–350 pounds
Over 300 pounds
Good packers
Fair packers

(Single price was quoted for each grade.)

[5] All classifications were taken from the *Des Moines Register* except those for Austin, which were taken from daily price cards there.

*Waterloo*

Prime hogs, 180–225 pounds
Prime hogs, 225–260 pounds
Prime hogs, 260–300 pounds
Good packers under 300 pounds
Good packers, 350–500 pounds

(Prices quoted were as a range for wagon-load delivered at plant.)

*Austin*

Choice lights, 140–160 pounds
Choice lights, 170–190 pounds
Choice medium, 200–220 pounds
Choice medium, 230–250 pounds
Choice butchers, 260–280 pounds
Choice heavy butchers, 290–310 pounds
Choice heavy butchers, 320–340 pounds
Choice heavy butchers, 350 and up
Pigs, 130 and under
Choice packers, 300 down
Choice packers, 310–350 pounds
Choice packers, 360–400 pounds
Choice packers, 410–450 pounds
Choice packers, 460 and up
Rough packers and thin sows
Stags

(Hogs not grading choice were priced according to quality. Price was quoted as a range.)

*Boone*

Prime hogs, 180–250 pounds
Prime hogs, 250–300 pounds
Good packers under 400 pounds
Good packers, 400–450 pounds

(Single price was quoted on all grades except the heavy packer grade where a range of price was given.)

*Iowa City*

Hogs, 170 and up
Packers

(Single price was quoted.)

*Peoria*

Tops
Lights
Mediums
Heavies
Packers
Stags

(Price was quoted as a range.)

*Cedar Rapids*

Prime hogs, 180–200 pounds
Prime hogs, 200–300 pounds
Prime hogs, 300–350 pounds
Good packers under 400 pounds
Good packers, 400–500 pounds
Prime hogs, 160–180 pounds
Prime hogs, 140–160 pounds
Fair packers
Rough, heavy, and thin

"Prime hogs" were barrows and sows that had not raised pigs. Stags, common hogs, and pigs under 140 pounds were priced according to quality. All sales by wire or telephone had to be received before 5:00 P. M.

(Price was quoted as a range.)

*Muscatine*

Prime butchers, 180–200 pounds
Prime butchers, 200–280 pounds
Extremely heavy butchers
Butcher packers
Heavy packers

(Single price was quoted for some grades and range given for others.)

An examination of the quotations given above shows that grades were usually based on both quality and weight differences. The number and the character of these grades were variable. Des Moines quoted prices on only 4, while Mason City used 11, and Austin 16. To pick the grades that were most nearly comparable at the various markets was to a considerable extent a

matter of judgment. It was much more difficult, therefore, to compare prices at interior markets than it was at terminal markets where uniform classifications were used.

Another complicating factor was that the classifications at most of these interior markets changed several times during the year. The data given below illustrate the frequency and nature of change at some interior points. The changes usually affected practically all grades; but only those within the medium weight group are listed.

*Des Moines*

The same grades are retained consistently throughout the year at this market. The grades, specified as Prime Heavies, Prime Mediums, Prime Lights, and Good Packers, are very indefinite since they do not designate weight ranges applicable to each. Since these grades are not rigidly defined it is likely that they do not mean the same at all periods of the year.

*Mason City*

| | |
|---|---|
| June 10, 1927 | Best mixed, 180–260 pounds |
| October 11, 1927 | Best mixed, 180–300 pounds |
| October 21, 1927 | Best mixed, 190–300 pounds |
| October 28, 1927 | Best mixed, 200–300 pounds |
| November 12, 1927 | Best mixed, 200–320 pounds |
| December 2, 1927 | Best mixed, 200–300 pounds |
| December 22, 1927 | Best mixed, 190–300 pounds |
| December 26, 1927 | Best mixed, 190–320 pounds |
| February 20, 1928 | Best mixed, 170–260 pounds |
| April 19, 1928 | Best mixed, 170–280 pounds |
| June 16, 1928 | Best mixed, 180–300 pounds |
| September 15, 1928 | Selected lights, 180–240 pounds |
| September 22, 1928 | Selected lights, 180–230 pounds |
| October 15, 1928 | Medium and butchers, 180–280 pounds |
| October 15, 1928 | Medium and butchers, 180–300 pounds |
| May 8, 1929 | Sorted lights and butchers, 180–260 pounds |

*Ottumwa*

| | |
|---|---|
| January 2, 1927 | 180–240 pounds |
| February 19, 1927 | 160–250 pounds |
| July 15, 1927 | 220–260 pounds |
| September 8, 1927 | 190–250 pounds |
| November 1, 1927 | 190–230 pounds |

*Cedar Rapids*

| | |
|---|---|
| January 2, 1929 | 180–250 pounds |
| April 28, 1929 | 180–300 pounds |
| May 10, 1929 | 180–250 pounds |
| July 10, 1929 | 220–250 pounds |
| September 15, 1929 | 180–250 pounds |
| October 12, 1929 | 200–250 pounds |
| October 18, 1929 | 200–300 pounds |
| October 31, 1929 | 180–300 pounds |
| November 6, 1929 | 200–300 pounds |

*Austin*

| | |
|---|---|
| January 2, 1927 | 180–250 pounds |
| February 23, 1927 | 210–290 pounds |
| April 20, 1927 | 170–240 pounds |
| August 4, 1927 | 170–220 pounds |
| September 12, 1927 | 170–250 pounds |
| September 30, 1927 | 190–250 pounds |
| October 10, 1927 | 170–250 pounds |
| October 31, 1927 | 210–300 pounds |
| January 31, 1928 | 170–220 pounds |

More recently, Austin has maintained the same classification of hogs throughout the year based on weight differences, and this classification provides for narrow and uniform weight ranges for each grade. The refinement of grades should improve market quotations. This, however, is not as significant as it appears on the surface because the same price is quoted for more than one grade, which shows that as far as price is concerned, the actual classification is not different from that followed where the weight range was wider. In fact, when the extreme range is taken of the grades quoted at the same price we find it is not very different from the changes made at Austin under the old classification. The same price was quoted during the given

periods on the grades included in the following weight ranges (which contained medium weight hogs):

| | |
|---|---|
| August 16, 1928–December 6, 1928.. | Choice, 170–250 pounds |
| December 7, 1928–May 9, 1929..... | Choice, 170–280 pounds |
| May 10, 1929–July 18, 1929........ | Choice, 170–250 pounds |
| July 19, 1929–October 15, 1929..... | Choice, 170–220 pounds |
| October 16, 1929–................ | Choice, 170–250 pounds |

The grades choice, 170–190 pounds and choice, 200–220 pounds were always quoted the same. For a considerable time the grade choice, 230–250 pounds was included with these two, and for a part of the time the grade choice, 260–280 pounds was also quoted at the same price.

Assuming it were possible to select comparable grades from the published quotations at the various interior markets, and to take proper account of changes in classifications, we would still find it difficult to make a reliable comparison of the prices paid for a given grade at these points because the prices paid may have been different from the prices quoted. These differences usually covered a considerable range at each market and were dependent largely upon the condition of the hogs when they arrived.

The condition of hogs offered for sale is more variable at interior than at terminal markets. At terminal markets the shrinkage caused by long-distance shipping is, in considerable measure, compensated by rest, feed, and water before the hogs are offered for sale. This, although a wasteful practice, does serve to put all lots of hogs on a more nearly uniform basis. Quotations at terminal markets are based upon the prices at which hogs are sold together with offers and bids on unsold lots, a large proportion of all hogs offered for sale on a given day being taken into account by the market reporters who issue the quotations.

The procedure at interior markets is different. Here, hogs are sold as they arrive, without being fed and watered. Those brought from a long distance and

having been on the road for a long time therefore stand considerably greater shrinkage than those brought from close by. Hogs are sometimes bought f.o.b. loading point or at the farm and trucked to market by the purchaser. The packer has to take shrinkage and fill into account in pricing such animals as he is interested in the carcass yield and not in live weight. Although this is a reasonable procedure for a buyer at interior points, it complicates a price comparison between markets because the scale of packers' price adjustments is different at the various interior points. Quotations are based on hogs that arrive in a certain condition (characteristically on hogs trucked a short distance to market). Price adjustments are made for hogs coming from longer distances and thus having greater shrinkage. These, however, are not reflected in the quotations issued. The bases upon which a few of the important interior packers pay for hogs are given below:

*Packing Company A*

This packing company has a zoning system for both truck and rail hogs. There are three zones upon which prices on trucked hogs are based. Zone 1 comprises all but two small corners of one county. The prices quoted on the company's daily price cards are applied to this zone. Zone 2 includes three counties and parts of two others. The price in this zone is five cents per hundredweight above the price in Zone 1. Zone 3 takes in the remainder of the company's territory and there the price is ten cents higher than in Zone 1.

The same base price (20 cents per hundredweight above the price for Zone 1 trucked hogs, which are the hogs upon which quotations are given on the daily cards) is paid for all hogs received by rail. Two kinds of adjustments are made, each based upon the distance of shipment: (a) As distance increases an arbitrary allowance of from 100 to 300 pounds per car for shrinkage is paid for at the regular

price. (b) As freight increases, the packer increases his bid. This is in addition to the shrinkage allowance referred to above. As a result, many hogs are obtained from distances of 100 to 200 miles or more from the plant.

This packing company has recently developed track buying of hogs. Agents are located at a large number of points at considerable distance from the plant.

### *Packing Company B*

This company bases its quotations upon hogs trucked from the nearest zone. A premium of as much as 10 cents per hundredweight above the base price is paid for hogs coming from greater distances by truck. A premium of 20 cents per hundredweight is paid for hogs shipped by rail. This packing company has no fixed zones but it adjusts its prices to the appearance of the hogs and the importance of the seller. It allows for added shrinkage on the basis of the length of time on the road. It also buys on contract over the telephone for delivery the following day.

### *Packing Company C*

Packing Company C uses the price on trucked hogs as a basis upon which quotations are made. No zones are provided for trucked hogs. Rail hogs are bought at 25 cents above the basic price quoted on the daily cards. It zones the rail hogs and allows from 1 to 3.5 per cent for shrinkage, depending upon the distance shipped and the time in transit.

### *Packing Company D*

This company buys all weights of hogs on the basis of the average weight in the load, with only the heaviest packers and the very lightest butchers taken out. These "cut-outs" are not weighed separately, but their weights are estimated by the buyer. The remainder of the load is then priced according to the prevailing quotation on the average weight of the load.

The price quoted on the daily card is based on trucked hogs. No defined zoning system is in operation, but if the

hogs are brought from a considerable distance, some allowance is made through increased price. Rail hogs are bought at 15 cents per hundredweight above the card quotation.

This packing company often pays today's prices, or tomorrow's, whichever are higher for hogs arriving after the market closes in the afternoon.

### *Packing Company E*

This is a comparatively small packing plant. It bases its prices on the condition of the hogs as they arrive, taking into account the fill and the distance transported. Because of the small business, it knows most of its shippers fairly well, singles out the ones that give their hogs an undue fill before bringing them to market, and discounts the price paid accordingly. Aside from the amount of fill, it bases its prices on the distance hogs have come.

### *Packing Company F*

Packing Company F does a comparatively good job of grading. It sorts out of each load all packers and light hogs, and if necessary sorts the remainder of the load into fairly uniform weight grades. Packers are usually sorted into at least two grades. All grades, both butchers and packers, are priced according to the quotations on the price card.

For rail hogs it pays 30 cents per hundredweight above the card quotation for trucked hogs. It adds 5 cents a hundredweight for rail hogs that have been from four to six hours on the road, 10 cents for those that have been from six to nine hours on the road, and 15 cents for those that have been from nine to twelve hours on the road.

A second adjustment in price is made on the basis of shrinkage. Hogs that have been from three to four hours on the road are allowed 100 pounds shrinkage per car, and 50 pounds more for every additional hour. The price paid for this shrinkage is about halfway between that for butchers and packers and so is lower than the average price paid for the typical carload of hogs.

The company pays up to 20 cents per hundredweight premium for purebred or cross-bred Hampshire or Yorkshire hogs.

Sales for "future delivery" are permitted. Shippers in the country may telephone to the plant and sell several carloads of hogs at stated prices, for delivery within from three to five days. The price paid for these hogs may differ materially from the price paid for hogs arriving on the same day which have not been previously contracted for.[6]

The outstanding significance in the above analysis is that the price quotations at interior markets are much less dependable than those at terminal markets. At interior points the quotations by grades are based on hogs brought by truck from within a short distance. Hogs undergo different degrees of shrinkage after they leave the farm, largely due to varying distances transported and time in transit. The price paid for the different lots is adjusted to take account of this shrinkage and of fill, which affects the dressing yield of the animals. The adjustments made are not uniform at the different interior points. Moreover, the grade classifications upon which prices are quoted differ from market to market and from time to time during the year. These factors considerably complicate the price comparisons between interior markets.

Before concluding this discussion attention should be called to the expansion of the work of the Bureau of Agricultural Economics of the United States Department of Agriculture to provide market reporting service at a group of interior markets in the heaviest producing areas of the country.[7] The federal reporting

[6] This material was adapted from information obtained from D. A. FitzGerald, Agricultural Extension Service, Iowa State College, Ames, Iowa.

[7] The reporting at these markets was begun on Aug. 1, 1930. The service covers numerous packing plants and concentration points in Iowa and southern Minnesota.

service at these interior points provides for the following uniform grade classification upon which price quotations are given:

| | | |
|---|---|---|
| Light light | 140–160 pounds, | good and choice |
| Light weight | 160–180 pounds<br>180–200 pounds | good and choice |
| Medium weight | 200–220 pounds<br>220–250 pounds | good and choice |
| Heavy weight | 250–290 pounds<br>290–350 pounds | good and choice |
| Packing sows | 275–500 pounds, | medium and good |
| Slaughter pigs | 100–130 pounds, | good and choice |
| Feeder and stocker pigs | 70–130 pounds, | good and choice |

(Soft or oily hogs and roasting pigs are excluded from classification. Each price is quoted as a range.) [8]

The federal reporting agency issues a composite price for the Iowa-Minnesota group of interior markets, giving the price range by grades. Since each individual point is usually represented by a single packer or concentration point operator, the agency does not feel justified in reporting individual markets as this would reveal the business of specific concerns. Because of this fact, the service is not as useful to producers and other shippers of livestock as it could be were it feasible to report markets individually. Nevertheless, the establishment of an official reporting service at interior points is distinctly a step in the right direction. It is hoped that the service will be instrumental in inducing operators at interior markets to adopt the federal grade classification in issuing their private market reports. It is reasonable to expect that the federal service will sooner or later be extended to other interior points, and that at least some of the

[8] This is the same classification now used by the Bureau of Agricultural Economics of the U. S. Department of Agriculture at terminal markets. It was adopted for use there on June 30, 1930, and represents a refinement of the light, medium, and heavy butcher grades formerly used.

interior markets outside the heavy producing area will find it advantageous to adopt the uniform grade classification used by markets co-operating with the federal Bureau of Agricultural Economics. The uniform classification of hog grades and weights will aid materially in making price comparisons between interior markets more significant.

## APPENDIX C

### RELATIONSHIP BETWEEN DIRECT PURCHASES OF HOGS AND THE LEVEL OF HOG PRICES[1]

The practice among packers of buying a considerable proportion of their hogs direct from producers or producers' organizations in the country was discussed in Chapter XI. Although this method of buying has increased greatly in recent years, it is by no means new. Local packers in the producing areas have always found it desirable to acquire a large part of their hog supply direct from farmers rather than from central markets. This has been true also of terminal packers whose plants were not located in direct contact with the stockyards. Eastern packers have secured a certain proportion of their hogs through concentration stations established at strategic points in areas of heavy production. Both local and terminal packers have also maintained country buying stations for hogs.

In 1923 the number of hogs bought direct—that is, outside of public markets—amounted to 24 per cent of all federally-inspected hogs slaughtered in the United States (see Table I on page 428). There was a drop to 22 per cent in 1924, but a return to the 1923 figure in 1925. Since then there has been a rather steady increase so that the percentage of hogs bought direct in 1929 amounted to 40 per cent of the total. The same proportion was maintained in 1930.

The proportion of direct purchases was not constant throughout the year. Although monthly variations did not show a distinct seasonal characteristic, it was usual for the proportion of hogs bought direct to increase during the late fall and early winter, and to

[1] This appendix was prepared by Knute Bjorka.

show something of a decrease during the summer. (See Chart 1 on page 429.)

The growth in the number of hogs bought direct has caused central market traders much concern. Although part of the increase in direct buying since 1926 has been due to the expansion in business enjoyed by interior packers, the major portion of it must be credited to the new policy of some of the large terminal packers of going into the producing area for a portion

I. HOGS BOUGHT DIRECT AS A PERCENTAGE OF ALL HOGS SLAUGHTERED UNDER FEDERAL INSPECTION, 1923–1930 [a]

| Year | *Percentage* | Total Number Slaughtered under Federal Inspection |
|---|---|---|
| 1923 | *24.0* | 53,334,000 |
| 1924 | *22.0* | 52,873,000 |
| 1925 | *24.0* | 43,043,000 |
| 1926 | *27.1* | 40,636,000 |
| 1927 | *32.6* | 43,633,000 |
| 1928 | *35.4* | 49,795,000 |
| 1929 | *40.2* | 48,445,000 |
| 1930 | *40.1* | 44,266,000 |

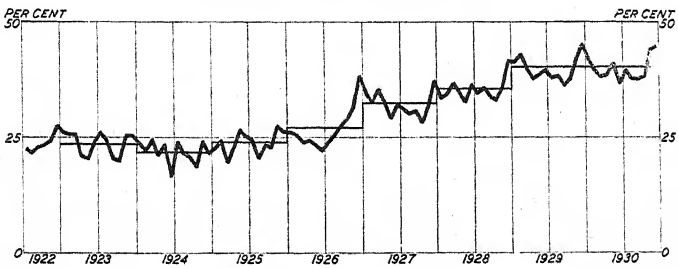
[a] U. S. Department of Agriculture *Yearbook*, 1928, pp. 931–32; and *Crops and Markets*, Feb. 30, 1931, pp. 54, 59.

of their supply, dealing with farmers or with co-operative shipping associations. Such procedure is vigorously opposed by terminal market traders and has caused direct buying to become a burning issue.

As pointed out in Chapters XI, XIV, and XVI, the practice of direct buying has been opposed because of its unfavorable effect on the earnings of commission firms, stockyards companies, and other agencies engaged in handling livestock at the terminal, and also on the ground that methods of dealing at interior points where competition is weak and regulatory agencies absent result in settlements which offer no benefit to the producer. The major argument against

country buying of hogs, however, has been that it adversely affects the whole price level. It is contended that, since country buying reduces the amount of purchases at the central markets, it decreases competition, which in turn results in depressed prices at these markets. Since prices paid in the country are quoted nominally on the basis of the central market to which the local area is tributary, it is argued that the lowering of the terminal price will be reflected in lower prices at country points as well.

1. Monthly and Annual Ratio of Hogs Bought Direct to All Hogs Slaughtered under Federal Inspection July, 1922–December, 1930




This argument proceeds along two lines: (1) Some hold that meat prices have been maintained but that hog prices have been reduced, thereby permitting the packers to increase their margin of profit. (2) Others contend that the spread between hog prices and hog product prices has not been affected, but that packers have favored the consumer to the detriment of the producer. They hold that direct buying of hogs is responsible for the depression of both hog and pork product prices below the point where they would have been if a larger proportion of the hogs had been traded in on the public markets. Unfortunately it is not possible to devise objective measurements which will give a conclusive answer to these contentions. However, in the present study we hope to throw some light on

the question by subjecting the problem to statistical analysis.

### I. PRICES OF HOGS AND OF HOG PRODUCTS

In order to ascertain whether there has been a change in the spread between the price of hogs and the price of hog products it is first necessary to obtain a satisfactory price series for pork products. There is no existing price series on hog carcasses. It is necessary, therefore, to resort to prices on specific cuts for which reliable quotations are available. Among important pork products for which satisfactory prices are collected by the Bureau of Agricultural Economics are hams, loins, shoulders, spareribs, and lard. The prices of these various products are used and are combined by being weighted on the basis of their relative importance in an average 250-pound dressed carcass.[2] Their corresponding weights are as follows:

| | |
|---|---|
| Hams (12–16 pounds) | 17.7 per cent |
| Loins (10–12 pounds) | 12.9 " " |
| Shoulders, skinned | 12.6 " " |
| Spareribs (half sheets) | 1.7 " " |
| Lard, pure (tierces) | 12.2 " " |
| | 57.1 " " |

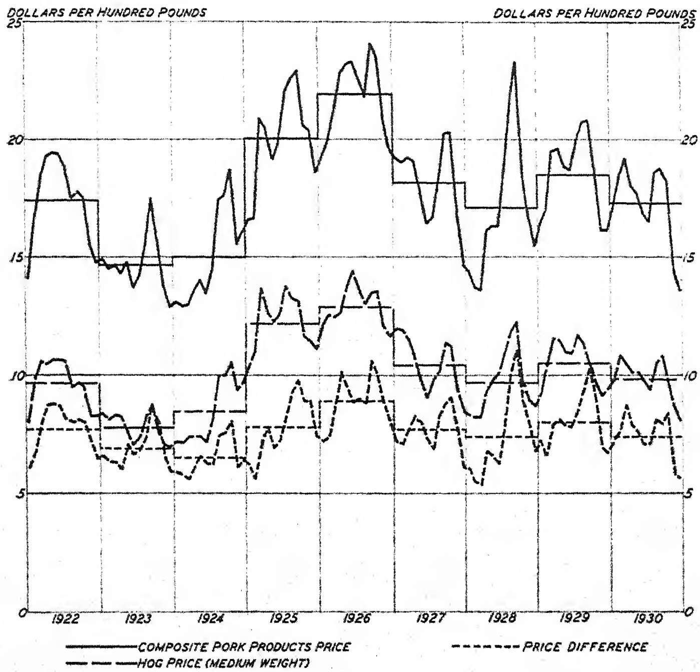
These prices are all based on fresh rather than cured products. Although hams and shoulders generally move into the consumer market as cured products, there is sufficient trading in the fresh cuts to establish a market, and fresh product prices are available. It would have been desirable to include the price on bellies from which bacon is derived, thereby accounting for an additional 16 per cent of the carcass, but there is no comparable price series on this cut. The price of cured bacon might have been included in place of bellies, but this price series by the Bureau of Agricultural Economics is not comparable for the entire period

[2] Weights are based on data presented by Rudolf Clemen in *American Livestock and Meat Industry*, p. 351.

since 1922. The bacon cut, therefore, is not taken into account.

It is the price difference between hogs and hog products that we are primarily interested in at this point. Chart 2 on this page gives the price of medium weight hogs (220–250 pounds) and a composite pork product

2. MONTHLY AND ANNUAL HOG PRICES COMPARED WITH COMPOSITE PORK PRODUCT PRICES AT CHICAGO, 1922–1930




price for the years 1922–1930 at Chicago. The difference between the price per hundredweight of hogs and the price of one hundred pounds of composite pork products is shown by the broken line on the same chart. It can be readily observed that the spread between the price of hogs and the price of products was not constant over this period (see also Table II on page 432). On the other hand, it tended to increase as the prices

of hogs and pork products advanced and to decrease as prices fell. This was true seasonally as well as cyclically, as was to be expected. High hog prices occur when the supply of hogs is small. When supply is light slaughtering establishments as well as distributing agencies have higher overhead per unit of product than when the supply is heavy. This is reflected in the selling price of the product. Therefore, when

II. Relation of Price of Hogs and of Pork Products at Chicago, 1922–1930

(Average price per hundredweight)

| Year | Hog Price | Composite Pork Product Price | Difference between Price of Hogs and Price of Pork Products | *Hog Price as a Percentage of Pork Product Price* |
|---|---|---|---|---|
| 1922......... | $9.67 | $17.38 | $7.71 | *55.6* |
| 1923......... | 7.83 | 14.72 | 6.89 | *53.2* |
| 1924......... | 8.47 | 14.99 | 6.52 | *56.5* |
| 1925......... | 12.23 | 20.05 | 7.82 | *61.0* |
| 4-year average | $9.55 | $16.79 | $7.24 | *56.9* |
| 1926......... | $12.94 | $21.87 | $8.93 | *59.2* |
| 1927......... | 10.45 | 18.15 | 7.70 | *57.6* |
| 1928......... | 9.69 | 17.12 | 7.43 | *56.6* |
| 1929......... | 10.52 | 18.54 | 8.02 | *56.7* |
| 1930......... | 9.85 | 17.27 | 7.42 | *57.0* |
| 5-year average | $10.69 | $18.59 | $7.90 | *57.5* |

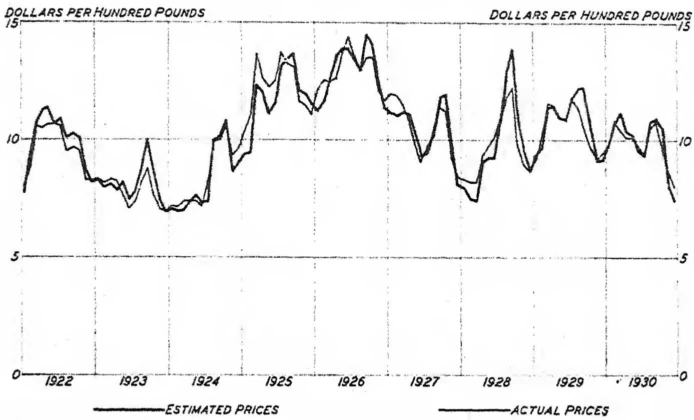
the supply is low the price is high, and the differential between hog prices and product prices widens.

In order to ascertain the constancy of the ratios between them, the percentage that hog prices were of pork product prices was computed for the years 1922–1930. (See the last column in Table II on this page.) It may be noted that the percentage usually increased as prices rose and decreased as they fell. This was to be expected. Direct costs incident to slaughtering and disposing of the product do not fluctuate with the price of hogs but may be assumed to be more nearly proportionate to the products handled.

A decrease in the volume of hogs increases hog prices, but the increased cost per unit of product handled is not proportionate to the increase in hog prices.

A comparison of the relationship of the price of hogs and of pork products for the period 1922–1925 with the period 1926–1930 (in which there was increased direct buying) has been made in Table II on page 432. It shows that the price of hogs was $1.14 higher in the latter period than in the former, the price of pork products $1.80 higher, the difference between hog

3. CORRESPONDENCE OF ACTUAL HOG PRICES WITH ESTIMATES BASED ON PORK PRODUCT PRICES, 1922–1930 [a]




[a] Method of estimating is explained on pp. 433–34.

prices and pork product prices 66 cents greater, and the proportion that hog prices were of pork product prices increased by .6 per cent.

This relationship has been studied further by methods of correlation. Taking the monthly price series of medium weight hogs and the composite pork product price which we have already employed (see page 431) for the period 1922–1925 inclusive, we secure a correlation coefficient of $+0.951 \pm 0.009$. From this measure of relationship we derive the following estimated formula with $P$ representing the com-

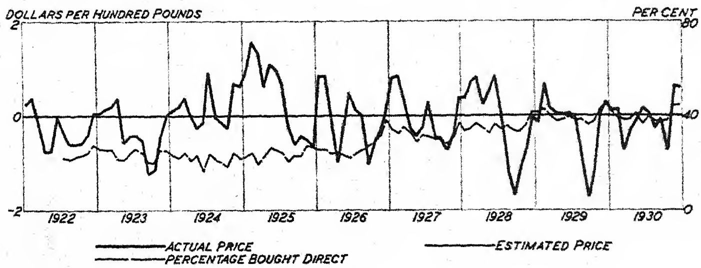
posite price of pork products for the period 1922–1925 inclusive:

$$\text{Estimated hog price} = .673\,P - 174$$

This formula is then used to estimate monthly prices for the entire period. The curve derived from the estimated formula, therefore, represents the price of pork products, but is reduced proportionately so as to be directly comparable to hog prices. The estimated curve is plotted in Chart 3 on page 433.

The object in projecting the estimated price is to ascertain whether changes have taken place in the

4. Deviation of Actual Hog Prices from Estimated Prices, and Percentage of Hogs Bought Direct, 1922–1930




relationship between pork product and hog prices. If the contention that the price of pork products has been maintained and the price of hogs has been depressed is correct, the estimated price for the latter period should exceed the actual price and the amount of the discrepancy would be revealed. In Chart 3 actual price follows estimated price reasonably closely, but it is desirable to examine precisely how the two curves differ. This is facilitated by reducing the estimated price to a straight line and plotting the actual price fluctuations above and below it as a base (see Chart 4 on this page). The actual price constantly fluctuates above and below the estimated price. Comparison on the basis of yearly average price of hogs with yearly estimated price may be made by referring

to Table III given below. The actual hog price was 29 cents below the estimated price during 1922 and 34 cents below in 1923, but it was 17 cents and 47 cents respectively above the estimated price during 1924 and 1925.

Turning to the period 1926–1930 inclusive—the years in which we are especially interested—we find that actual prices ran below estimated prices by 5 cents

III. ACTUAL HOG PRICES COMPARED WITH ESTIMATES BASED ON PORK PRODUCT PRICES, 1922–1930

| Year | Actual Price | Estimated Price Based on Composite Pork Product Price | Actual Compared with Estimated |
|---|---|---|---|
| 1922 | $9.67 | $9.96 | $ −.29 |
| 1923 | 7.83 | 8.17 | −.34 |
| 1924 | 8.47 | 8.30 | +.17 |
| 1925 | 12.23 | 11.76 | +.47 |
| 4-year average | $9.55 | $9.55 | — |
| 1926 | $12.94 | $12.99 | $ −.05 |
| 1927 | 10.45 | 10.48 | −.03 |
| 1928 | 9.69 | 9.79 | −.10 |
| 1929 | 10.52 | 10.74 | −.22 |
| 1930 | 9.85 | 9.89 | −.04 |
| 5-year average | $10.69 | $10.78 | $ −.09 |

per hundredweight in 1926, 3 cents in 1927, 10 cents in 1928, 22 cents in 1929, and 4 cents in 1930. Insofar as this indicates anything with reference to the course of prices, it suggests the presence of a slightly depressive influence in recent years.[3] However, this is within the range of error of estimate, which is 41 cents.

[3] It should be borne in mind, however, that even in these years there were periods of several months in which the actual price ran above the estimated price, and the coefficient of correlation between actual price and estimated price throughout the whole of the period 1926–1930 was $+0.938 \pm 0.010$ as compared with a coefficient of $+0.951 \pm 0.009$ for 1922–1925. For discussion of the seasonal aspect of the problem, see pp. 436–37.

As we get further away from the period upon which the estimating formula is based, changing conditions in the industry may have modified the relationship between pork product prices and hog prices. However, since the estimating formula applies nearly as well during the later period as during the earlier, there is no statistical evidence that the relationship between pork product prices and hog prices has been modified since 1926, when direct buying of hogs showed marked increase.

It has been pointed out that the spread between pork product prices and hog prices widens when we operate on a higher price level for hogs and products and narrows when we operate on a lower level. The fact that we operated on a higher price level for hogs during the latter period need not concern us at this point because the influence of the changes in the price level for hogs and products was not removed in the correlation analysis, and was consequently taken account of in the estimating formula. On the other hand, this assumes that the same factors affecting hog prices during 1922–1925 would prevail to the same degree during 1926–1930, except that the increase in direct buying of hogs is the new factor in the situation.

Furthermore, it will be noted from Chart 4 on page 434 that, even though the actual price for a given year averaged less than the estimated price, there were certain periods in each year in which the actual price ran above the estimated price; and these periods in which the relationship was comparatively favorable seemed to coincide with high points in the curve showing the percentage of hogs bought direct rather than with low points. Actual price varies above and below estimated price with some degree of seasonal regularity. During December, January, February, and March it is characteristic for the price of hogs to be above the estimated price, while for August, September, October, and November the price falls below estimated price quite

consistently. The price during the other months shows more variation.

We are interested in seeing whether there is any relationship between the seasonal variation in the proportion of hogs bought direct and the strength of the price of hogs in comparison to the estimated price. If an increase in direct purchases has a depressing effect on the price of hogs seasonally, the two curves will move in opposite directions. They do not do so. There is more of a tendency for a small proportion purchased direct to be associated with low relative prices, and with increased proportions of direct purchases to be associated with a strengthened price for hogs. This was particularly so during the period since the summer of 1926 when the proportion of hogs bought direct increased substantially.

It appears from Chart 4 on page 434 that the proportion of hogs bought direct to all hogs slaughtered under federal inspection in the United States shows a seasonal (month-to-month) change. Furthermore, the seasonal variation seems to synchronize somewhat with the seasonal change of the actual price of hogs as it varies about the estimated price. It is desirable to make a more careful examination of the relationship of these curves. In order to bring the seasonal characteristic of the curve of directs into greater relief, it is advisable to remove the trend of the series. The trend has been distinctly upward since 1926, but it remained fairly horizontal prior to that time. It therefore is determined for the entire period, and actual values are measured as deviations from it.[4]

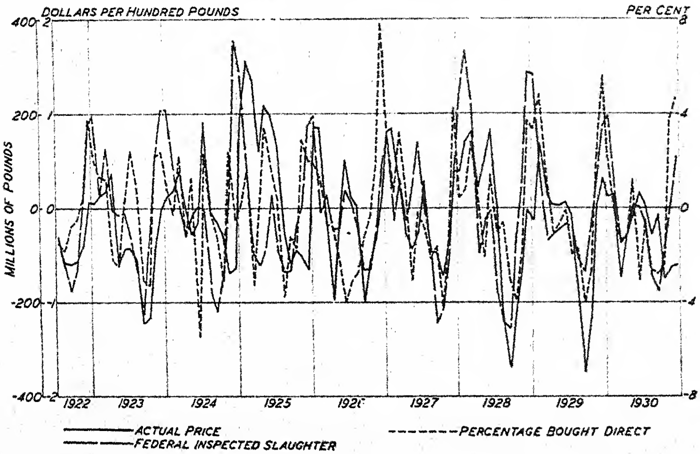
The adjusted curve for hogs purchased direct and the curve of actual price as it varies from estimated price are shown in Chart 5 on page 438. It is evident from the diagram that the two curves tend to move similarly. This is particularly true during the latter

[4] The trend is determined by a 12-month moving average, centered.

part of 1928 and during 1929 and 1930. The movement seems to be less uniform during the period 1922–1925 inclusive than during the period since 1926.

The general appearance of the curves giving the proportion of all hogs bought direct and the actual price of hogs as it varied about estimated price is not unlike the seasonal curve for the entire hog supply.

5. SEASONAL MOVEMENTS OF DIRECT PURCHASES, VARIATION OF ACTUAL FROM ESTIMATED PRICE, AND SLAUGHTER UNDER FEDERAL INSPECTION, 1922–1930




We will use federally-inspected slaughter to represent hog supply.[5] The trend has been removed from the federally-inspected slaughter series also and monthly values are measured from the trend.[6] The adjusted curve is also plotted in Chart 5. There is a direct relationship between this and the other two curves, and they all move together with considerable regularity.

[5] The data represent pork produced for food under federal inspection instead of the number of hogs slaughtered under federal inspection. Slaughter data were originally supplied by the Bureau of Animal Industry.

[6] This trend is also determined by a 12-month moving average, centered.

The hog supply curve also coincides more closely with the other two curves during the period 1926–1930 than during the earlier period.

By applying a statistical measure of the relationship of the curves presented in Chart 5 we find a verification of the conclusions drawn from an inspection of the graph. A correlation between the percentage of all hogs bought direct (measured from trend) and the difference between actual price and estimated price gives a coefficient of $+ 0.340 \pm 0.092$ for the years 1922 to 1925 inclusive,[7] and a coefficient of $+ 0.543 \pm 0.061$ for the period 1926–1930 inclusive. The correlation coefficient between the percentage of all hogs bought direct and federally-inspected slaughter, representing supply (also measured from trend), is $+ 0.395 \pm 0.088$ for the earlier period and $+ 0.608 \pm 0.055$ for the later period. The difference of actual price measured from estimated price correlated with federally-inspected slaughter with a coefficient of $+ 0.211 \pm 0.099$ for the earlier period and $+ 0.574 \pm 0.058$ for the period 1926–1930. This shows that the correlation between each pair of series is measurably higher for the period 1926–1930 than for the earlier period, and that the degree of relationship between the different pairs of variables for each period is substantially the same.

We are not justified in assuming any particular causal sequence in the change of these factors. But the facts that the price of hogs is high relative to pork product prices during the same months that the proportion of hogs bought direct is relatively high, and that low price of hogs as compared to the price of products tends to be associated with a relatively small percentage of hogs bought direct, are established. Furthermore, these factors tend to increase when the

[7] Data on the percentage of total hogs bought direct were first collected for July, 1922. The period from 1922 to 1925 inclusive is therefore 42 months.

hog supply is high and tend to decrease when the hog supply is low.

The foregoing analysis does not support the contention that direct marketing has caused the price of hogs to decline. The actual spread in price between hogs and hog products has widened during the period 1926–1930 as compared to the relationship that existed during the period 1922–1925, but because the price of hogs and of products was on a higher level during the latter than during the former period. The actual spread tended to increase as price rose and to decrease as price fell. The price of hogs in fact was a higher proportion of the price of pork products during the period 1926–1930 than during the previous period.

The actual price of hogs averaged below estimated price each year since 1926, the spread widening during 1928 and 1929 as compared to 1926 and 1927. However, for 1930 actual price was only four cents below estimated price. This is distinctly within the range of probable error.

The estimating formula based on the relationship that prevailed between hog prices and pork product prices during the period 1922–1925 applies practically as well to the period 1926–1930 as it does to its own period. A high hog price as compared to the estimated price tends to be associated with high total market receipts and a low relative price with low total market receipts.

The fact that a high price for hogs in relation to the price of products, the percentage of hogs bought direct, and the total market supply of hogs are related directly does not justify an assumption of causal connection between these series. On the other hand, the most logical explanation of this relationship seems to be about as follows: Direct buying of hogs increases rapidly as the seasonal marketable supply increases. This is not only true of the total volume of hogs bought direct, but the proportion of the total also increases.

Competition for hogs in the country increases during the heavy packing season and consequently a smaller proportion of the supply is consigned to public markets. With the increased supplies at all points (at public markets as well as country points) each buyer can handle a larger volume, thus decreasing the expense per unit. Reduced buying expense for hogs, together with more economical use of packing equipment, reduces the unit cost of producing the finished product. Because of competition for hogs, these savings in operation, instead of accruing entirely as profits to the packers, will at least in part be reflected in the payment of a higher price to producers. The expense of handling products at the season of heavy supply is not affected in the same manner. Pork products move into consumption at a more uniform rate throughout the year; thus a portion of the products produced during periods of heavy marketing needs to be held over to be disposed of during seasons when the hog supply is low. That is, the cost of handling products tends to be proportionate to the volume sold, while the expense of acquiring hogs, operating the packing plant, and processing tends to decrease as volume increases and increase as volume decreases; and the reduced unit cost is reflected in an increased price to producer because of competition. The price of hogs relative to products increases, therefore, when the supply of hogs is high and decreases when the supply of hogs is low, as does the percentage of hogs bought direct.

## II. HAS DIRECT BUYING DEPRESSED BOTH HOG AND HOG PRODUCT PRICES?[8]

It was concluded from the analysis in Section I that no measurable change in the relationship between the price of hogs and the price of hog products has taken place as a result of an increase in direct buying. To test whether the price levels of both hogs and products

[8] The author acknowledges helpful suggestions and criticism from Max Sasuly in the preparation of this section.

have been affected is more difficult. The close relationship between the price of hogs and the price of pork products has been established. Consequently, we can drop one of these series in our present problem. Since it is the price of hogs we are concerned about, that series will be retained. We propose to replace the pork product price series with series of some other factors which are assumed to be responsible for the price of pork products. These series will be used as independent variables in a multiple correlation problem and their individual and joint influences upon hog prices will be determined. An estimating formula, based on the relative influence of the individual factors will be computed and the estimated price of hogs will be determined for each month. The four years, 1922–1925 will be used as the base period and the analysis will be, in general, the same as that followed in the problem in Section I.

The following factors are used in the multiple correlation problem:

*A*. Inspected slaughter, in millions of pounds.[9] This is adjusted to uniform 30-day months. A slight smoothing of the data is made by taking a weighted three-month moving average, centered, the weights being 1–2–1.

*B*. Storage holdings of pork and lard[10] measured as percentage variations from normal holdings, the normal being established for the nine years 1921–1929.

*C*. The price per pound of prime summer yellow cottonseed oil, in barrels, New York.[11]

*D*. The Standard Statistics index of business,[12] corrected for seasonal changes but not for trend.

*X*. The price of medium weight hogs at Chicago.[13]

[9] *Statistical Bulletin* No. 18, U. S. Department of Agriculture, pp. 74–75 and issues of *Crops and Markets*.

[10] *Ibid.*, pp. 103–4, and issues of *Crops and Markets*.

[11] U. S. Department of Agriculture *Yearbook*, 1930, p. 693.

[12] *Standard Statistical Bulletin*, 1930–31, Base Book Issue, p. 126.

[13] *Statistical Bulletin* No. 18, U. S. Department of Agriculture, pp. 132–33, and U. S. Department of Agriculture *Yearbooks*.

Variables $A$, $B$, $C$, and $D$ are the independent variables and $X$ the dependent variable. Variables $A$ and $B$ are supply factors. Inspected slaughter accounts for the current supply, and storage holdings, measured from normal holdings, account for larger or smaller stocks than usual. Cottonseed oil ($C$) represents a competing article for lard. The index of business ($D$) serves as a measure of consumers' ability to make purchases. It was originally planned to include a price series of beef since this is a competing article for pork, but when tested it did not show a significant relationship with the price of hogs for the base period 1922–1925, and was therefore omitted.[14]

The gross relationship between each of the independent variables and hog prices is measured by the following coefficients:

$$\begin{aligned} XA &= -0.634 \pm 0.058 \\ XB &= -0.420 \pm 0.080 \\ XC &= +0.102 \pm 0.096 \\ XD &= +0.123 \pm 0.096 \end{aligned}$$

A multiple correlation of monthly data between $A$, $B$, $C$, and $D$ as independent variables, and $X$ as the dependent variable gives a coefficient ($R$) of $0.738 \pm 0.044$ for the base period 1922–1925. An estimating formula is computed on the basis of the existing relationship for this period[15] and an estimated monthly price based on the formula is derived for the period

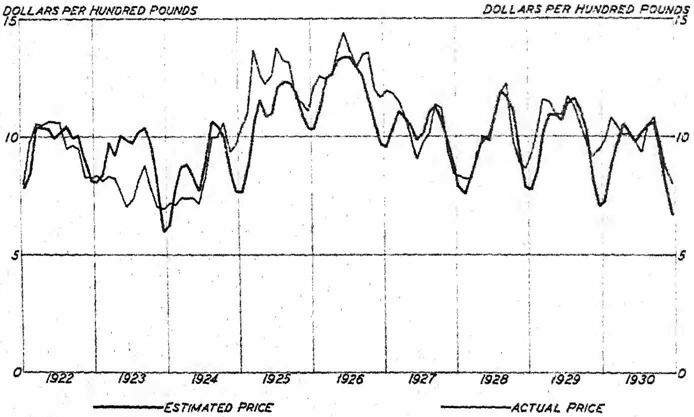
[14] A simple correlation between beef prices and hog prices for this period gave a coefficient of $-0.386 \pm 0.083$. Though the month-to-month changes in beef prices and hog prices, measured from their respective cyclical trends, correlated directly, the fact that the period 1922–1925 covered different phases of the cycles of the two series accounted for the gross negative relationship. Since in our problem it is desirable to retain the effect of the cycle it was deemed advisable not to include the beef price series in the multiple correlation problem.

[15] The following is the estimated formula: Estimated Hog Price $= -.8626A - 3.9236B + .2758C + 6.9636D + 880$.

1926–1930 as well as for the period for which the formula is derived.

The actual price and the estimated price of hogs for the nine-year period 1922–1930 are given in Chart 6 on this page. The relationship between these two curves has considerable irregularity for the earlier period but their movements synchronize more closely during the period from 1926 to 1930 inclusive.[16]

6. Actual Hog Prices Compared with "Linear" Estimates, 1922–1930 [a]




[a] Estimated prices are based upon linear relationship of inspected slaughter, storage holdings, cottonseed oil price, and the Standard Statistics index of hog prices.

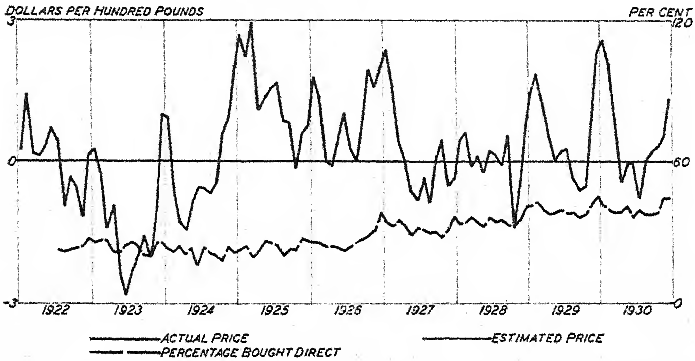
The variation between actual and estimated prices may be seen more clearly in Chart 7 on page 445 where the residuals of the price of hogs measured from estimated price, designated as a horizontal zero base, are shown. An examination of the relationship of the two curves reveals that, in general, they vary directly with the hog price cycle. That is, the actual price tends to be below estimated price when the hog price

[16] The relationship between actual and estimated prices for the period 1926–1930 gives a correlation coefficient of $+0.845 \pm 0.028$. This compares with a coefficient of $+0.738 \pm 0.044$ for the period 1922–1925.

cycle is low, and above estimated price when the hog cycle is high.

On the basis of the relationship that existed between the four independent variables and the price of hogs during the base period 1922–1925, we find that actual prices were on the average above estimated prices every year during the period 1926–1930, although the reverse was true some months every year. The rela-

7. Deviations of Actual Hog Prices from "Linear" Estimates, 1922–1930 [a]




[a] Estimated prices are based upon linear relationship of inspected slaughter, storage holdings, cottonseed oil price, and the Standard Statistics index of hog prices.

tionship between actual and estimated prices by years is shown in Table IV on page 446. During the base period, actual price was above estimated price for 1922 and 1925, but the reverse was true for 1923 and 1924. During the latter period, actual price exceeded estimated price every year, ranging from 7 cents above in 1928 to 96 cents above in 1926, with an average of 47 cents above for the five-year period.

If we assume the independent variables *A*, *B*, *C*, and *D* in this study to have the same influence upon the price of hogs (*X*) during 1926–1930 as they had during

the base period 1922–1925,[17] do we find that the rapid increase in direct buying of hogs since the summer of 1926 has had a depressing effect upon the price of hogs? If this were true, the actual price of hogs as compared to the estimated price would be related inversely to changes in the proportion of hogs marketed direct. That is, as the proportion of directs

IV. Actual Hog Prices Compared With "Linear" Estimates, 1922–1930 [a]

(Average price per hundredweight)

| Year | Actual Price | Estimated Price | Actual as Compared With Estimated Price |
|---|---|---|---|
| 1922 | $9.67 | $9.62 | $ + .05 |
| 1923 | 7.83 | 9.11 | − 1.28 |
| 1924 | 8.47 | 8.63 | − .16 |
| 1925 | 12.23 | 10.85 | + 1.38 |
| 4-year average | $9.55 | $9.55 | — |
| 1926 | $12.94 | $11.98 | $ + .96 |
| 1927 | 10.45 | 10.33 | + .12 |
| 1928 | 9.69 | 9.62 | + .07 |
| 1929 | 10.52 | 9.89 | + .63 |
| 1930 | 9.85 | 9.30 | + .55 |
| 5-year average | $10.69 | $10.22 | $ + .47 |

[a] Estimated prices are based upon linear relationship of inspected slaughter, storage holdings, cottonseed oil price, and the Standard Statistics index of hog prices. The estimating formula is based upon the relationship existing during the period 1922–1925.

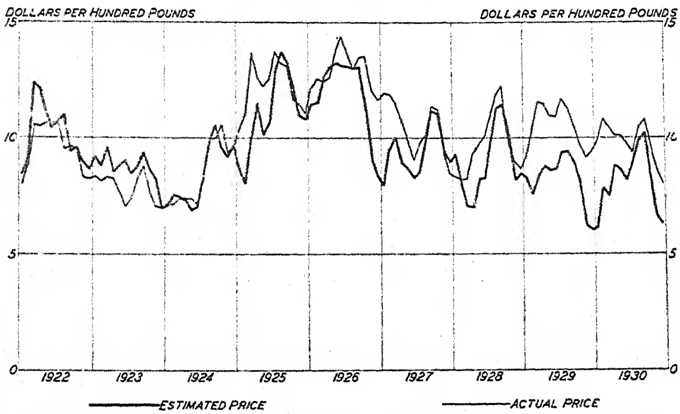
continued to increase during the latter period, the actual price of hogs compared to the estimated price would continue to decline. This did not take place. On the contrary, actual price compared to estimated price was strengthened during the period 1926–1930 over the earlier period. The curve giving the proportion of hogs bought direct to all hogs slaughtered under

[17] This is the same procedure followed in the analysis of the relationship between the price of pork products and the price of hogs presented in Section I.

federal inspection is shown in Chart 7 on page 445.

The difference between actual price and estimated price as shown in this chart may be because of a non-linearity in the relationship between the independent variables *A*, *B*, *C*, and *D* and the dependent variable *X* for the period 1922–1925. Furthermore, it appears that the relationship of actual price to estimated price is of a seasonal character. The possibility of the presence of a non-linear relationship

8. Actual Hog Prices Compared with "Non-Linear" Estimates, 1922–1930 [a]




[a] Estimated prices are based upon non-linear relationship of inspected slaughter, storage holdings, cottonseed oil price, and the Standard Statistics index of hog prices.

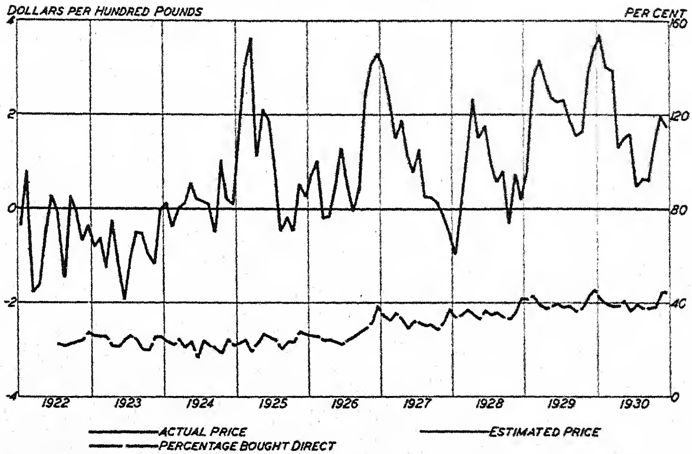
between each of the independent variables and the price of hogs, and the changing relationship seasonally were examined and are discussed below.

The curves of actual price and of estimated price based on a non-linear relationship of each of the variables, *A*, *B*, *C*, and *D*, with *X*, with seasonal characteristics taken into account, are shown in Chart 8 on this page.[18] The estimated curve shown here differs slightly

[18] The graphic non-linear multiple correlation method used quite extensively by research workers in the U. S. Department of Agriculture, and for which L. H. Bean is largely responsible, was employed.

from the estimated curve shown in Chart 6 where it is based upon linear relationships between the independent variables and the price of hogs and which takes no account of seasonality. The residuals between the curve of actual price and the curve of estimated price are shown in Chart 9 given below, where the estimated price is designated as a horizontal

9. DEVIATIONS OF ACTUAL HOG PRICES FROM NON-LINEAR ESTIMATES, 1922–1930 [a]




[a] Estimated prices are based upon non-linear relationship of inspected slaughter, storage holdings, cottonseed oil price, and the Standard Statistics index of hog prices.

zero base, and the actual price as varying above and below it. This shows that actual price varied less from estimated price during the period 1922–1925 when taking account of non-linearity of the independent factor than when assuming linearity which was the case in Chart 7. The multiple correlation coefficient between the four independent variables and the dependent variable, hog price, when taking into consideration non-linearity and seasonal characteristics for the period 1922–1925, is $0.829 \pm 0.030$ as compared to

$0.738 \pm 0.044$ when non-linearity and seasonality are not accounted for.[19]

A comparison of actual price and estimated price by years for the period 1922–1930 inclusive is given in Table V on this page. The actual price was below the estimated price for 1922 and 1923, but above for 1924 and 1925. During the period 1926–1930, actual price exceeded estimated price every year, ranging from 74 cents above in 1928 to $2.40 above in 1929, an average of $1.39 for the five-year period.

V. ACTUAL HOG PRICES COMPARED WITH "NON-LINEAR" ESTIMATES, 1922–1930 [a]
(Average price per hundredweight)

| Year | Actual Price | Estimated Price | Actual as Compared With Estimated Price |
|---|---|---|---|
| 1922 | $9.67 | $10.14 | $ − .47 |
| 1923 | 7.83 | 8.67 | − .84 |
| 1924 | 8.47 | 8.32 | + .15 |
| 1925 | 12.23 | 11.07 | + 1.16 |
| 4-year average | $9.55 | $9.55 | — |
| 1926 | $12.94 | $11.89 | $ + 1.05 |
| 1927 | 10.45 | 9.45 | + 1.00 |
| 1928 | 9.69 | 8.95 | + .74 |
| 1929 | 10.52 | 8.12 | + 2.40 |
| 1930 | 9.85 | 8.11 | + 1.74 |
| 5-year average | $10.69 | $9.30 | $ + 1.39 |

[a] Estimated prices are based upon non-linear relationship of inspected slaughter, storage holdings, cottonseed oil price, and the Standard Statistics index of hog prices.

By taking account of non-linearity and seasonality, the estimated price for the latter period, based on the four independent factors used, is less than when assuming linear relationships, which accounts for the actual price appearing more favorable.

[19] This reduces the probable error of estimate to 74 cents as compared to 89 cents when non-linearity and seasonality are not taken account of.

It should be recalled that the purpose of this analysis was to ascertain whether the increase in the proportion of hogs bought direct has been responsible for the depression of the price of hogs and of pork products. Since direct marketing of hogs has increased considerably since 1926 it is the relationship between actual and estimated prices during the period 1926–1930 that is of especial interest. It is seen above that the actual price of hogs was higher during the period 1926–1930 than the price as estimated by both the linear and non-linear relationships between hog prices and the composite index of inspected slaughter of hogs, storage holdings of pork and lard, the price of cottonseed oil, and the Standard Statistics index of business during the period 1922–1925.

We are not justified in drawing the conclusion that the higher price of hogs (and consequently of pork products) as compared to estimated price during the period 1926–1930 was due to the increase in the proportion of hogs bought direct. Other factors may have been responsible. It must be concluded, however, that this study yields no statistical evidence to show that the increase in direct marketing of hogs has had a depressing effect upon the level of hog prices and the price of pork products.

# APPENDIX D

## CERTIFICATE OF INCORPORATION AND CODE OF BY-LAWS OF THE NATIONAL LIVESTOCK MARKETING ASSOCIATION

### CERTIFICATE OF INCORPORATION

We, the undersigned, in order to form a corporation for the purposes hereinafter stated, under and pursuant to the provisions of an Act of the Legislature of the state of Delaware, entitled "An Act Providing a General Corporation Law," (approved March 10, 1899) and the acts amendatory thereof, and supplemental thereto, do hereby certify as follows:

I. The corporate name is—

NATIONAL LIVESTOCK MARKETING ASSOCIATION

II. The location of the principal office in Delaware of the corporation is 7 West Tenth Street, in the city of Wilmington, county of New Castle; and The Corporation Trust Company, 7 West Tenth Street, Wilmington, Delaware, is designated as the statutory agent therein, in charge thereof, and upon whom process against the corporation may be served.

III. The nature of the corporation's business and the objects and purposes to be transacted are all or any of the following:

To market, handle and sell for its stockholders and others, livestock and the products of livestock upon a commission or other basis; to handle, market and sell to its members and others, supplies, equipment and other property necessary or useful in connection with the production, handling and marketing of livestock; to engage in any activity involving or related to the

handling, and/or killing of livestock, and the marketing, processing, packing and curing of meats and the by-products thereof; to provide facilities, finances and services for standardizing, improving and maintaining the organization, management and business methods of its stockholders and of their stockholders and members; to engage in any activity tending to promote or aid in any way the more efficient production of and the handling and marketing of the livestock and the products of livestock of its stockholders, or tending to promote the general welfare of its stockholders; to provide methods and means for the marketing of the livestock of its stockholders and the livestock of others, and for the financing of its operations and the operations of its stockholders; to buy, own, hold, sell, pledge, endorse, guarantee, discount, dispose of and deal in the stocks, bonds, notes and securities of corporations and associations engaged in any activity related to or connected with the marketing, selling, purchasing, financing, or handling of livestock or engaged in any activity related or similar to the purposes for which this corporation is organized. The corporation shall have power to hold, purchase, mortgage, lease and convey real and personal property within and without the state of Delaware, and may have one or more offices without said state. Nothing herein contained shall limit or restrict the powers and rights conferred upon the corporation by the laws of the state of Delaware.

The corporation is organized and shall be operated upon a co-operative basis for the mutual benefit of its stockholders and their stockholders and members as producers of livestock and agricultural products. The corporation shall not deal in the products of persons not owners of stock in the corporation to an amount greater in value than such as are handled by the corporation for its stockholders, and the aggregate value of services rendered to its stockholders and the aggre-

gate value of the products marketed, sold and handled by the corporation to and for its stockholders in every calendar year from January 1 to December 31, inclusive, shall exceed the aggregate value of all services rendered to and products marketed, handled and sold for persons, firms and corporations not owners and holders of its capital stock.

The corporation shall have no power to engage in the business of banking.

Any of the foregoing businesses may be carried on in any part of the world by the corporation alone or in association with others.

IV. The total authorized capital stock of the corporation shall be fifty thousand (50,000) shares of common stock of the par value of ten dollars ($10) per share, and five thousand (5,000) shares of preferred stock of the par value of one hundred dollars ($100) per share, amounting in the aggregate to one million dollars ($1,000,000). The minimum amount of capital with which the corporation will commence business is one thousand dollars ($1,000).

The preferred stock shall be entitled and limited to dividends, when and as declared by the board of directors, at the rate of five per cent (5%) per annum, based upon the par value thereof, which shall be cumulative as of the date of issue. In case of dissolution of the corporation the holders of preferred stock shall be entitled and limited to receive the par value of their shares and any accumulated and unpaid dividends before any distribution is made to the holders of the common stock. The preferred stock outstanding may be retired in whole or in part by the corporation at any dividend date upon paying to its holders one hundred dollars ($100) per share and any accrued dividends, and the corporation may select what particular shares of preferred stock it will so retire. Stock of both classes shall be paid in, either in money or property, at such times and in such manner as the

by-laws may prescribe. Both classes of stock shall have voting rights and powers.

No dividends of any kind shall ever be paid upon the common stock, but the net earnings of the corporation, after the payment of dividends upon the preferred stock and after setting aside such reserves and amounts for working capital as the board of directors may, from time to time, determine, shall be refunded to the stockholders and patrons of the corporation on a patronage basis, all in accordance with the by-laws of the corporation.

Amounts set aside for reserves or working capital from business done in any year shall be allocated on the books of the corporation on a patronage basis for that year, or in lieu thereof, the books and records of the corporation shall afford a means for doing so at any time so that in the event of dissolution or earlier if deemed advisable, in the sole discretion of the board of directors, such reserves or working capital or any part of them may be returned to stockholders in accordance with their contributions thereto.

No person shall be entitled to hold or own any part of the capital stock of this corporation except co-operative livestock marketing agencies meeting the conditions of the Act of Congress approved February 18, 1922, entitled "Act to Authorize Association of Producers of Agricultural Products" and which agencies in the calendar year from January 1 to December 31, inclusive, immediately preceding that in which stock is issued to, or acquired by, them, actually marketed for producers of livestock not less than twenty-five hundred single-deck carloads (or the equivalent) of livestock and/or which are otherwise found eligible and acceptable by the board of directors hereof.

In the event any stockholder of this corporation ceases to be eligible to own stock in this corporation, or in case any stockholder shall violate or fail to comply with any contract entered into with this corporation,

then such stockholder shall have no right to vote in any meeting of the corporation or to participate in any way in the affairs or business of the corporation.

At all elections of directors of the corporation each stockholder shall be entitled to as many votes as shall equal the number of its shares of stock multiplied by the number of directors to be elected, and it may cast all such votes for a single director or may distribute them among the number to be voted for or any two or more of them, as it may see fit.

V. The name and place of residence of each of the Incorporators are:

| NAME | ADDRESS |
|---|---|
| Joseph R. Fulkerson | Jerseyville, Illinois |
| Elmer A. Beamer | Blissfield, Michigan |
| Ortho O. Wolf | Ottawa, Kansas |

VI. The corporation is to have perpetual existence.

VII. The private property of the stockholders shall not be subject to the payment of corporate debts.

VIII. The board of directors of the corporation by the affirmative vote of three-fourths (¾) or more of the entire board of directors is authorized to make and alter the by-laws.

Both stockholders and directors shall have power, if the by-laws so provide, to hold their meetings, have offices and keep the books of the corporation outside the state of Delaware, except as otherwise provided by statute.

IN WITNESS WHEREOF, we, the undersigned, being all of the incorporators of said corporation, have signed and sealed this Certificate, and hereby declare and certify that the facts herein stated are truly set forth, this seventh day of May, 1930.

## CODE OF BY-LAWS

We, the undersigned, constituting and being all the directors of the National Livestock Marketing Associa-

tion, do hereby adopt the following code of by-laws for said corporation.

### ARTICLE I. NAME AND LOCATION

*Section 1. Name.* The name of this corporation shall be—

NATIONAL LIVESTOCK MARKETING ASSOCIATION

*Section 2. Delaware Office.* The principal office in the state of Delaware is to be located at 7 West Tenth Street, in the city of Wilmington, county of New Castle.

*Section 3. Other Offices.* Other offices for the transaction of business shall be located at such places as the board of directors may from time to time determine.

### ARTICLE II. CAPITAL STOCK

*Section 1. Authorized Capital.* The total authorized capital stock of the corporation shall be fifty thousand (50,000) shares of common stock of the par value of ten dollars ($10) per share, and five thousand (5,000) shares of preferred stock of the par value of one hundred dollars ($100) per share, amounting in the aggregate to one million dollars ($1,000,000). The minimum amount of capital with which the corporation will commence business is one thousand dollars ($1,000).

*Section 2. Rights of Preferred Stock.* The preferred stock shall be entitled and limited to dividends, when and as declared by the board of directors, at the rate of five per cent (5%) per annum, based upon the par value thereof, which shall be cumulative as of the date of issue. In case of dissolution of the corporation the holders of the preferred stock shall be entitled and limited to receive the par value of their shares and any accrued dividends before any distribution is made to the holders of common stock. The preferred stock outstanding may be retired in whole or in part by the corporation at any dividend date upon paying to its

holders one hundred dollars ($100) per share and any accrued dividends, and the corporation may select what particular shares of preferred stock it will so retire.

*Section 3. Terms of Purchase of Stock.* All stock subscribed for by each eligible co-operative livestock marketing agency may be paid for in cash, or twenty-five per cent (25%) in cash at the time of subscription and the balance in three (3) annual installments of twenty-five per cent (25%) each with interest at six per cent (6%) per annum until the full amount shall have been paid. No certificates of stock shall be issued and delivered until the full purchase price thereof shall have been paid. Both classes of stock shall have voting rights and powers.

*Section 4. Rights of Common Stock.* No dividends of any kind shall ever be paid upon the common stock, but the net earnings of the corporation after the payment of dividends upon preferred stock and after setting aside such reserves and amounts for working capital as the board of directors may, from time to time, determine, shall be refunded to the stockholders and patrons of the corporation on a patronage basis; all in accordance with the by-laws of the corporation.

*Section 5. Annual Allocation of Reserve Account.* Amounts set aside for reserves or working capital from business done in any year shall be allocated on the books of the corporation on a patronage basis for that year, or in lieu thereof, the books and records of the corporation shall afford the means for doing so at any time so that in the event of dissolution or earlier if deemed advisable, in the sole discretion of the board of directors, such reserves or working capital or any part of them may be returned to stockholders in accordance with their contribution thereto.

*Section 6. Qualifications of Common Stock Shareholders.* No person shall be entitled to hold or own any part of the capital stock of this corporation except

co-operative livestock marketing agencies meeting the conditions of the Act of Congress approved February 18, 1922, entitled "Act to Authorize Association of Producers of Agricultural Products," and which agencies in the calendar year from January 1 to December 31, inclusive, immediately preceding that in which stock is issued to, or acquired by, them actually marketed for producers of livestock not less than twenty-five hundred single-deck carloads (or the equivalent) of livestock and/or which are otherwise found eligible and acceptable by the board of directors hereof.

*Section 7. Execution of Stock Certificates.* All certificates of stock shall be signed by the president and the secretary and shall be sealed with the corporate seal of this corporation.

*Section 8. Treasury Stock.* Treasury Stock shall be held by the corporation subject to the disposal of the board of directors and shall neither vote nor participate in the dividends.

*Section 9. Liens on Stock.* The corporation shall have a first lien upon all shares of its capital stock and upon all dividends declared upon the same for any indebtedness of the respective holders thereof to the corporation.

*Section 10. Transfers of Stock.* Transfers of stock shall be made only on the books of the corporation, and the old certificate, properly endorsed, shall be surrendered and cancelled before a new certificate is issued. The stock books of this corporation, shall be closed against transfers for a period of twenty (20) days before the day of payment of a dividend and before each annual meeting of stockholders.

*Section 11. Obligation of Amount of Stock.* Co-operative marketing agencies eligible to own stock in the corporation and desiring to acquire stock therein shall first execute an agreement with the corporation in the form prescribed by the corporation. Every stockholder shall be required to take and pay for one share of com-

mon stock for each ten (10) single-decks (or its equivalent) of livestock handled by it during the calendar year immediately preceding that in which it acquires, subscribes for or purchases stock (fractions of less than five single-decks shall be deemed to be ten decks). In the event the applicant for or holder of stock was not engaged in business for one full calendar year preceding its subscription for or acquisition of stock the board of directors shall determine the amount of stock it shall be required to take.

*Section 12. Annual Readjustment of Stock Holding.* At least once every year, at such time as may be determined by the board of directors, there shall be a reappointment of common stock among the stockholders of the corporation on the basis of the volume of business and each stockholder shall be required to take and pay for additional common stock or to deliver to the corporation a portion of its common stock, depending upon whether its business has increased or decreased during said period, all in accordance with the provisions of the contract between the corporation and the stockholder.

*Section 13. Qualification of Preferred Stock Shareholders.* Preferred stock of the corporation shall be sold only to owners of common stock of the corporation each of whom shall whenever preferred stock is issued by the corporation, purchase and pay in cash for at least one share of preferred stock for each one hundred (100) shares of common stock owned by it (fractions of less than fifty shares of common stock to be disregarded and fractions in excess of fifty shares to be treated as one hundred shares).

*Section 14. Restrictions on Sale of Capital Stock.* No stockholder shall transfer or dispose of its stock without first offering the same for sale to the corporation. Upon receiving written notice from a stockholder of its intention to transfer, sell or otherwise dispose of its stock, the corporation shall have thirty

(30) days thereafter within which to purchase and pay for the same. If within said period the corporation shall offer to the holder of such stock an amount equal to the par value thereof, plus accrued dividends upon preferred stock, such stock shall thereupon become the property of the corporation. Should the corporation fail to offer such amount to the stockholder within said period the stockholder serving such notice shall thereupon be free to dispose of the stock without restriction, except that no stock shall be transferred or sold to any person or corporation other than a co-operative livestock marketing agency eligible to hold or own stock in the corporation as herein elsewhere provided.

*Section 15. By-Laws Obligation on Stockholder.* Should any stockholder at any time knowingly and intentionally violate the provisions of these by-laws, or any provision or condition of the contract between the corporation and the stockholder, or any rule or regulation promulgated by the board of directors of the corporation, or should any stockholder fail to pay the dues hereinafter specified at the time specified, upon the affirmative vote of $\frac{2}{3}$ of the entire board of directors, its stock certificate or certificates may be canceled and upon payment to it by the corporation of the par value of such certificate or certificates, plus accrued dividends upon preferred stock, they shall be surrendered to the corporation. The provisions of this section shall apply to both preferred and common stockholders.

## ARTICLE III. ASSOCIATE MEMBERS

*Section 1. Associate Members.* All members and stockholders of associations owning stock in the corporation shall be deemed to be associate members. Associate members shall have the right to attend annual and special meetings of the stockholders of the corporation and to take part in the discussion of matters under consideration at such meetings. They shall

have no voting right or other rights or powers and notices of meetings shall not be given to them.

ARTICLE IV. STOCKHOLDERS MEETINGS

*Section 1. Annual Meeting.* The annual meeting of the stockholders of the corporation shall be held at its place of business in the city of Chicago, Illinois, on the fourth Wednesday of March each year, at ten o'clock in the forenoon, unless a different [time] shall be designated by the board of directors, and if said day fall on a legal holiday the meeting shall be held on the next succeeding business day.

*Section 2. Special Meetings.* Special meetings of the stockholders shall be held at the same place as the annual meeting or at such other place as may be designated by the board of directors, and may be called at any time by the president, or in his absence by the vice-president, on vote of a majority of the board of directors. It shall be the duty of the president to call such meetings whenever requested in writing by stockholders holding ten per cent (10%) or more of the capital stock of the corporation. In such case notice of the meeting shall be issued within ten days and the meeting held within thirty days of the receipt by the president of such request.

*Section 3. Notices of Meetings.* Notice of the time and place of all annual and special meetings shall be mailed by the secretary to each stockholder at its last known post office address not less than fifteen (15) nor more than thirty (30) days before the date thereof. In case of special meetings the notice shall state the time, place and purpose of the meeting.

*Section 4. Chairman of Meetings.* The president, or in his absence the vice-president, shall preside at all such meetings.

*Section 5. Stock Transfers and Lists.* At every meeting each stockholder shall be entitled to cast one vote for each share of stock owned by it. Stockholders may vote in person or by proxy duly authorized in

writing, provided the instrument creating such proxy shall be delivered to and filed with the secretary before the same shall be recognized. No stock shall be voted at any election which has been transferred on books of the corporation within twenty (20) days next preceding such election. It shall be the duty of the secretary to prepare, at least ten (10) days before election, a complete list of stockholders entitled to vote, arranged in alphabetical order. Said list shall be open at the place where the election is to be held for the said ten days to the examination of any stockholder, and shall be produced and kept at the time and place of election during the whole time thereof, subject to the inspection of any stockholder who may be present.

*Section 6. Cumulative Voting.* At all elections of directors of the corporation each stockholder shall be entitled to as many votes as shall equal the number of its shares of stock multiplied by the number of directors to be elected, and it may cast all such votes for a single director or may distribute them among the number to be voted for any two or more of them, as it may see fit.

*Section 7. Quorum.* A quorum for the transaction of business at any regular or special meeting shall consist of at least fifty per cent (50%) of the total number of stockholders in the corporation.

### ARTICLE V. BOARD OF DIRECTORS

*Section 1. Number and Nomination of Directors.* There shall be as many directors of this corporation as there are stockholders who during the preceding year marketed not less than twenty-five hundred single-deck carloads or the equivalent of livestock, or have the equivalent amount of livestock under contract to be marketed through the corporation during the current year.

In the election of directors each stockholder shall have the right to nominate one or more of its officers or directors for election as a director or directors of

this corporation. At least one director shall be elected from each stockholder member handling not less than twenty-five hundred single-deck carloads or the equivalent of livestock.

In addition to the foregoing number of directors there shall be four (4) directors who shall be elected at large, and insofar as practicable, one from a nomination made by the American Farm Bureau Federation; one from a nomination made by the National Grange, Patrons of Husbandry; one from a nomination made by the Farmers Educational and Co-operative Union of America; and one from a nomination made by the American National Livestock Association.

*Section 2. Voting Power of Directors.* On all matters coming before the board of directors at any regular or special meeting, each director shall have one vote, and each director elected from a stockholder member handling during the preceding calendar year or having under contract to be marketed during the current year a minimum of seventy-five hundred single-deck carloads or the equivalent of livestock as determined and fixed at the annual meeting, shall be entitled to one additional vote, and in further addition thereto such director shall be entitled to one additional vote for each and every additional five thousand single-deck carloads or the equivalent of livestock over such minimum of seventy-five hundred carloads.

*Section 3. Election by Ballot.* The members of the board of directors shall be elected by ballot annually at the regular annual meeting of the stockholders, and shall hold office until the next regular annual meeting of the stockholders and until their successors are elected and qualified.

*Section 4. Regular Meetings.* The regular annual meetings of the board of directors shall be held immediately after the annual meetings of the stockholders and at the same place.

In addition to the annual meetings of the board of directors, the board shall hold at least two other regular meetings, the first to be held during the first six months of the calendar year, and the second during the last six months of the calendar year; each to be held at the time and place to be designated by the board of directors. One representative to each stockholder may attend any meeting of the board of directors and may take part in the discussion of matters under consideration at such meetings, but shall have no voting or other rights or powers and no notice of directors' meetings need be given to stockholders.

*Section 5. Special Meetings.* Special meetings of the board of directors, to be held in the place of business of the corporation in the city of Chicago, Illinois, or such other place as the executive committee shall designate, may be called by the president, and in his absence by the vice-president or a majority of the members of the board. Notice of all regular and special meetings (save the annual meeting) shall be given to each director by mailing the same at least ten (10) days, or by telegraphing or delivering the same at least five (5) days, before such meeting to the last known address of the director, but such notice may be waived by any director. At any meeting at which every director shall be present even though without notice any business may be transacted.

*Section 6. Quorum.* A majority of the directors shall constitute a quorum for the transaction of business, but a majority of those present at any regular or special meeting shall have power to adjourn the meeting to a future time.

*Section 7. Vacancies.* Vacancies occurring in the board or in any office of the corporation between the regular annual meetings of the board may be filled by the remaining members of the board of directors at any regular or special meeting. In the event that a vacancy in the board of directors is caused by the death

or resignation of a member of the board, who when elected to the board was an officer or member of the board of directors of a stockholder of this corporation, the person appointed by the board of directors to succeed him in accordance with the provisions of this paragraphs shall be chosen from the officers and board of directors of such stockholder corporation or association.

*Section 8. Place of Records.* The books and records of the corporation may be kept without the state of Delaware, as directed by the board of directors.

*Section 9. Executive Committee.* During the interim between meetings of the board, the business of the corporation shall be managed by an executive committee, which shall be composed of seven (7) directors, one of whom shall be the president and one the vice-president of the corporation. The remaining five members shall be chosen by the board of directors at its annual meeting, except that such five members of the first executive committee need not be chosen by the board of directors at an annual meeting. Regular meetings of the executive committee shall be held at least monthly. The chairman of the committee shall be the president of this corporation.

*Section 10. Annual Audit.* Previous to each annual stockholders meeting the board of directors shall have the books and accounts of the association carefully audited and the report of such audit, together with a statement of the business done during the previous year, the general financial condition of the corporation and the condition of its tangible property shall be submitted to the stockholders at the annual meeting.

*Section 11. Bonds.* The board of directors shall require the general manager and other officers, agents and employees having the custody of any of its funds or property, to give to the corporation a bond conditioned for the faithful discharge of the duties of such person and in such amount and with such company as

surety as the board of directors shall require. The cost of such bonds shall be borne by the corporation.

*Section 12. Rules and Regulations.* The board of directors may from time to time prescribe and promulgate such rules and regulations for the conduct of the business and for transacting of business with the corporation by its stockholders and patrons as it deems advisable, and every stockholder shall at all times comply with such rules and regulations.

*Section 13. Per Diem and Expenses.* The directors shall be paid for attendance at meetings and time spent upon corporate business fifteen dollars ($15) per day and all actual and necessary expenses.

## ARTICLE VI. OFFICERS

*Section 1. Officers.* The officers of the corporation shall be a president, a vice-president, a secretary and a treasurer. They shall be elected by the board of directors for the term of one year, and each shall hold office until his successor is duly elected and qualified. The offices of secretary and treasurer may be held by one person, in which event such person shall be termed "Secretary-Treasurer." Any officer may be removed at any time with or without cause by a majority vote of all the members of the board of directors.

*Section 2. Duties of President.* The president shall preside at all meetings of the stockholders and directors; shall have general supervision over the affairs of the corporation and over the other officers; shall sign all contracts, deeds, documents requiring the corporate seal and shall perform such other duties as are incident to his office, or as may be from time to time prescribed by the board of directors.

*Section 3. Duties of Vice-President.* The vice-president shall, in the absence of the president or his inability to act, have all the powers and perform all the duties of the president.

*Section 4. Duties of Secretary.* The secretary shall keep a record of the proceedings of all meetings of the

stockholders and board of directors, and shall attest the same by his signature. He shall be responsible for the safekeeping of all papers and documents of the corporation which properly belong to his office, and of the corporate seal, and all the same shall be kept at the Chicago, Illinois, office of the corporation unless otherwise authorized by the board of directors. He shall attest certificates of stock and all instruments requiring the corporate seal, and shall affix the seal thereto, and shall issue notices of meetings as required by the by-laws.

*Section 5. Duties of Treasurer.* The treasurer shall safely keep and account for all money, funds and other property which may come into his hands, and shall have the books and accounts of the corporation audited from time to time. He shall keep all moneys of the corporation in such bank or banks as the board of directors shall prescribe. All checks, promissory notes, bills of exchange and other instruments calling for the payment of money which shall be issued by the corporation shall be signed by such officers and employees as the board may from time to time designate.

*Section 6. Delegation of Duties.* In case of the absence or inability of the secretary or treasurer to act, the duties of such officers shall be devolved upon and performed by such persons as the board of directors may prescribe.

*Section 7.* The board of directors may employ a general manager and such other officers as may be deemed advisable, who shall have such power and authority and perform such duties as may be determined by the board of directors.

## ARTICLE VII. DUES

*Section 1. Per Car Dues.* Each stockholder shall pay to the corporation dues amounting to fifty cents (50¢) per single-deck and seventy-five cents (75¢) per double-deck of livestock handled or marketed by

it, and where livestock is shipped or received by truck or other than by railroad twenty-five (25) cattle, seventy-five (75) calves, seventy (70) hogs, or one hundred fifteen (115) sheep shall be deemed to be a single-deck of livestock. Dues shall be paid to the corporation within fifteen (15) days after the end of each calendar month for all livestock handled and/or marketed during each calendar month.

### ARTICLE VIII. CONTRACTS

*Section 1. Contracts.* The board of directors shall cause to be prepared a form of contract between the corporation and its stockholders, and no corporation or association shall become a stockholder in the corporation unless and until it shall have executed and delivered to the corporation such contract.

### ARTICLE IX. DIVIDENDS AND FINANCE

*Section 1. Distribution of Earnings.* The net earnings of the corporations shall be distributed at the expiration of each fiscal year or oftener if the board of directors shall so order, as follows:

(a) There shall first be set aside out of the net earnings such sum as the board of directors shall determine, for the purpose of accumulating and maintaining a reasonable reserve for depreciation or possible losses; a reasonable reserve to provide for the erection of buildings and facilities or for the purchase and installation of machinery and equipment, or to retire indebtedness, or as may in the discretion of the board be deemed necessary for working capital, and such other reserves as may be required by law or deemed necessary or desirable by the board of directors. The board of directors shall fix from time to time the reasonable aggregate amount of such reserves and shall provide how moneys in the same shall be invested.

(b) If sufficient net earnings in the opinion of the board of directors are available a dividend not exceeding five per cent (5%) in any year, which shall [be]

cumulative, may then be paid upon the outstanding preferred stock of the corporation. The remaining net earnings of the corporation shall be distributed to the members and patrons of the corporation equally in proportion to the volume of business done by each member or patron respectively with the corporation during the period in question, provided that no such distribution shall be made until the reserves of the corporation shall equal the total of the authorized capital.

*Section 2. Depositories.* The funds of the corporations shall be deposited in such bank or banks as the directors shall designate and shall be withdrawn only upon the check or order of officers or employees designated by the board of directors.

### ARTICLE X. CERTIFICATES OF STOCK

*Section 1. Certificates of Stock.* The certificates of stock of this corporation shall be in substantially the following form, common stock and preferred stock being specifically so designated on the certificates:

No................. .................Shares

NATIONAL LIVESTOCK MARKETING ASSOCIATION

Incorporated under the laws of the state of Delaware

Certificate of............Stock

Capital Stock $1,000,000. Share $..........Each

THIS CERTIFIES THAT..........................
is owner and holder of.....................shares of the
.................................capital stock of the

NATIONAL LIVESTOCK MARKETING ASSOCIATION,

a corporation transferable on books of the corporation only on surrender of this certificate, in accordance with the by-laws of the corporation.

The transfer of this stock, and the persons who may own it, and the conditions of ownership, are fixed and limited by the certificate of incorporation and by-laws of the corporation, to which reference is made for more definite information. The corporation has a lien upon this stock for any indebtedness of the stockholder to it.

IN WITNESS WHEREOF the said corporation has caused this certificate to be signed by its duly authorized officers and its corporate seal to be hereunto affixed, this.......... day of ................, A. D. 19...

.................................
*President*

.................................
*Secretary*

(Corporate Seal)

In addition to the foregoing the certificates for preferred stock shall contain upon their face the following provision:

This stock is entitled and limited to dividends at the rate of five per cent (5%) per annum which shall be cumulative. In case of dissolution, the holder of this stock shall be entitled and limited to receive the par value of the shares represented by the certificate and any accrued dividends before any distribution is made to the holders of the common stock. The shares of stock represented by this certificate may be retired in whole or in part by the corporation at any dividend date upon paying to the holder thereof one hundred (100) dollars per share and any accrued dividends and the corporation may select what particular shares of preferred stock it will retire.

The certificates of common stock shall contain upon their face the following provisions:

No dividends of any kind will be paid upon the shares of stock represented by this certificate.

Whenever the holder hereof, upon thirty (30) days' notice by the corporation, shall be called upon to surrender and cancel this certificate and receive in lieu thereof a new certificate or certificates, pursuant to the provisions of Article II, Section 12, of the by-laws of the corporation, holder shall surrender and cancel same and accept such new certificate or certificates for the purpose of effecting the obligations set forth in said sections of the by-laws.

### ARTICLE XI. CONDUCT OF BUSINESS

*Section 1. Conduct of Business.* The board of directors shall establish a sales board which shall con-

sist of the president of the National Livestock Marketing Association, the general manager of that association, and the general manager of the National Feeder and Finance Corporation. It shall be the duty of the board to secure the most authoritative information relative to the supply and demand situation with respect to livestock and livestock products and, with this information as a basis, prepare and transmit reports to the co-operative livestock sales agencies early each business day, and during the trading hours, for their direction. When deemed advisable, the board of directors shall establish the following departments and such other departments as it deems desirable:

(a) A transportation department, which shall represent the corporation at all rate hearings affecting it or in which it may be interested, and which shall endeavor to improve transportation service at terminal and country points and perform such other functions and duties as the board of directors may determine.

(b) A publicity department, which shall handle all news releases and perform such other functions and duties as may be determined by the board of directors.

(c) An advertising department, which shall perform such functions and duties as may be determined by the board of directors.

(d) A research department, which shall furnish statistical and other information to the stockholders of the corporation concerning livestock prices and the supply and demand for livestock and livestock products; conduct business surveys for stockholders which might be of service to them in securing new business or outlets for livestock; standardize office systems and accounting records and statements, and generally aid stockholders in the elimination of waste and inefficiency; and which shall perform such other functions and duties as the board of directors may determine.

(e) A legal department, which shall care for all legal questions and matters affecting the corporation.

(f) A public relations department, which shall endeavor to create good-will and promote the general welfare of the corporation and its stockholders; manage the stockholder relations work of the corporation; and perform such other functions and duties as the board of directors may determine.

(g) A department of livestock and meats, which shall work with federal and state agencies in promulgating the standardization and grading of livestock and meats, and shall engage in other such activities as the board of directors may prescribe.

*Section 2. Qualification of Employees.* Experienced men shall be employed to head the various departments of the corporation and they shall be paid such compensation for their services as may be fixed by the board of directors.

### ARTICLE XII. SEAL

*Section 1. Seal.* The seal of the corporation shall be in a circular die, in the center of which shall appear the words "Corporate Seal" and around the edge of which shall appear the words "National Livestock Marketing Association, Chicago, Illinois." An imprint of such seal is affixed to this sheet.

### ARTICLE XIII. AMENDMENTS

*Section 1. By-Law Amendments.* The board of directors of the corporation by the affirmative vote of three-fourths or more of the entire board of directors are authorized to alter these by-laws.

# APPENDIX E

## CERTIFICATE OF INCORPORATION AND CODE OF BY-LAWS OF THE NATIONAL FEEDER AND FINANCE CORPORATION

### CERTIFICATE OF INCORPORATION

We, the undersigned, in order to form a corporation for the purposes hereinafter stated, under and pursuant to the provisions of an Act of the legislature of the state of Delaware, entitled "An Act Providing a General Corporation Law," (approved March 10, 1899) and the acts amendatory thereof, and supplemental thereto, do hereby certify as follows:

I. The corporate name is—

NATIONAL FEEDER AND FINANCE CORPORATION

II. The location of the principal office in Delaware of the corporation is 7 West Tenth Street, in the city of Wilmington, county of New Castle; and The Corporation Trust Company, 7 West Tenth Street, Wilmington, Delaware, is designated as the statutory agent therein, in charge thereof, and upon whom process against the corporation may be served.

III. The nature of the business and the objects and purposes proposed to be transacted, promoted and carried on are to do any or all of the following things as fully and to the same extent as natural persons might or could do: To buy, sell, and deal in stocker and feeder livestock both on the terminal livestock markets and elsewhere; to make, execute, endorse, guarantee or otherwise secure notes, mortgages, deeds of trust, or other obligations of itself or any corporation or

co-operative association engaged in the livestock industry or any related activity; to form, organize and acquire the common stock of credit or finance corporations concerned with the making of loans or the extension of credit on or for the production, feeding, raising, holding, or fattening of livestock; to borrow money for any of the purposes of this Corporation without limitation, and to evidence and secure the same in any manner deemed advisable; to hold, purchase, mortgage, lease, and convey such real or personal property of any character as may be deemed advisable for the conduct and operation of this Corporation; to do any or all of the things herein set forth to the same extent as natural persons might or could do in any part of the world as principal, agent, contractor, trustee, or otherwise, alone or with others; and in addition to all the powers herein enumerated this Corporation may perform any and all other functions deemed to further the livestock business herein authorized. The foregoing shall be construed as both objects and powers, and the enumeration herein shall not be held to limit or restrict in any manner the general powers conferred on this Corporation by the laws of the state of Delaware, all of which are hereby expressly claimed.

IV. The total authorized capital stock of the Corporation shall be fifty thousand (50,000) shares of common stock of the par value of one hundred ($100) dollars per share. Stock in this Corporation may be acquired and held only by a Delaware corporation known as the National Livestock Marketing Association. The minimum amount of capital with which the Corporation will commence business is one thousand ($1,000) dollars.

V. The stockholders and directors shall have power to hold their meetings, to have an office or offices, and to keep the books of this Corporation subject to the provisions of the law of Delaware outside the state and at such places as may be deemed advisable.

VI. This Corporation is to have perpetual existence. The private property of stockholders shall not be subject to the payment of corporate debts to any extent whatever.

VII. The board of directors of the Corporation by the affirmative vote of three-fourths or more directors are authorized to make and alter the by-laws.

VIII. The name and place of residence of each of the incorporators are as follows:

| NAME | RESIDENCE |
|---|---|
| Joseph R. Fulkerson | Jerseyville, Illinois |
| Elmer A. Beamer | Blissfield, Michigan |
| Ortho O. Wolf | Ottawa, Kansas |

We, THE UNDERSIGNED, being all the incorporators, for the purpose of forming a corporation in pursuance of an Act of the Legislature of the state of Delaware, entitled "An Act Providing A General Corporation Law," (approved March 10, 1899) and the acts amendatory thereof and supplemental thereto, do make and file this Certificate of Incorporation hereby declaring and certifying that the facts herein stated are true, and accordingly hereunto have set our respective hands and seals, this seventh day of May, 1930.

## CODE OF BY-LAWS

The undersigned, constituting and being all the directors of the National Feeder and Finance Corporation, do hereby adopt the following code of by-laws for said Corporation.

### ARTICLE I. POWERS

*Section 1.* The powers of this Corporation shall be those stated in its Certificate of Incorporation.

### ARTICLE II. MEETINGS OF STOCKHOLDERS

*Section 1.* The annual meeting of the stockholders of this Corporation shall be held at its principal office

in Chicago, Illinois, at 2:00 o'clock P. M. on the fourth Wednesday of March of each year.

*Section 2.* Any corporation holding stock in this Corporation may vote the same through any person or persons authorized in writing by the board of directors thereof to do so.

*Section 3.* Special meetings of this Corporation may be called by the President, or by a majority of the directors, for the transaction of any business thereof.

### ARTICLE III. BOARD OF DIRECTORS

*Section 1.* This Corporation shall have seven directors, who shall be elected at the annual meeting of the stockholders and who shall hold office for one year or until the election and qualification of their successors.

*Section 2.* The directors shall meet at such times and places within or without the state of Delaware as they may agree upon. Special meetings may be called by the President by giving three days' notice thereof to each director. A majority of the directors shall constitute a quorum for the transaction of any business of the Corporation.

### ARTICLE IV. COMPENSATION OF DIRECTORS AND OFFICERS

*Section 1.* Directors as such shall not receive any stated salary for their services and by resolution of the board may be allowed not to exceed $15.00 per day and expenses for attending each regular or special meeting of the board or for performing other special services under instructions of the board of directors; provided that nothing herein contained shall be construed to prevent any director from serving the Corporation in any other capacity and receiving compensation therefor. No director shall be paid per diem and expenses by this Corporation if he receives per diem and expenses from the National Livestock Marketing Association or a subsidiary thereof for the

same period. Salaries of officers shall be fixed by the board of directors.

## ARTICLE V. OFFICERS

*Section 1.* This Corporation shall have a president, vice-president, and secretary-treasurer.

*Section 2.* The President, if present, shall preside at all meetings of the directors and stockholders, and shall have general control of the affairs of the Corporation, subject to the directions and instructions of the board of directors. In the absence of the President or at his request, the Vice-President is authorized to perform the duties and functions of the President.

*Section 3.* The Secretary-Treasurer shall have general charge of the books, records, and money of the Corporation, subject to the directions and instructions of the board of directors.

*Section 4.* Checks, contracts, or other instruments of this Corporation may be signed by such person or persons as shall be authorized to do so by the board of directors.

*Section 5.* The board of directors may authorize the appointment or employment of such persons and agents as may be deemed advisable.

*Section 6.* In case of the absence or disability of any officer of this Corporation the board of directors may designate another person to act in his stead.

## ARTICLE VI. VACANCIES

*Section 1.* In case of death, disability, resignation, or otherwise, of one or more of the officers or directors of this Corporation, the remaining directors, although less than a quorum, shall fill the vacancies for the unexpired term.

## ARTICLE VII. SEAL

*Section 1.* The seal of this corporation shall be a circular die, in the center of which shall appear the

words, "Corporate Seal Delaware" and around the edge of which shall appear the words, "National Feeder and Finance Corporation." An imprint of such seal is affixed to this sheet. (SEAL)

### ARTICLE VIII. AMENDMENT OF BY-LAWS

*Section 1.* These by-laws may be changed or amended by the affirmative vote of three-fourths or more of the board of directors of this corporation.

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